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SIGNPOST SPEECHES IN FAR EAST

Four authoritative pronouncements in the Spring form the great signposts which guide the public's course and settle the doubts, hopes and fears which cannot but beset it in so great a period of history. H.E. the Governor's Budget speech set the spirit for them in its calm and quiet assurance. It did not wholly shut out a pervading sense of the continuous "miracle" which is the epitome of the Colony's confident march, breast forward, through all the trials and tribulations, the alarms and excursions of this extraordinary age. The Financial Secretary spoke of surpluses where deficits had been budgeted for. Though a deficit is again on the balance-sheet for the ensuing year, no new taxation is to be imposed, in spite of the great capital cost of many large new projects and the rise of recurrent expenditure with constant development. Though the Budget figures have surpassed the \$400 m. mark, the reserves still maintain the standard set of a year's revenue in hand.

The Chairman of the HK General Chamber not unnaturally concentrated on what he called the "extremely serious shrinkage" of the Colony's trade with China. At first sight an adverse balance in that trade of no less than \$1,185 m. seems almost frightening—all the more so in the light of the strenuous measures the British and Australian Governments have had to impose for the protection of Sterling and the control of inflation in those countries. When more closely analysed, however, the figures appeared much less alarming. Hongkong has always had to import the bulk of its foodstuffs, and some \$685 m. were spent on imported foodstuffs. Building materials retained for our own use totted up another \$200 m. There are the

invisible incomes from the variety of services, from banking and shipping to insurance; the ever-rising income from tourist spending in our colourful and attractive shops; the substantial mail-order tailoring business; and, finally, the remittances from overseas, which in the last year or two have been supplemented by a considerable importation of capital from other parts of troubled S.E. Asia. But satisfactory though this may be, all will agree with Mr. J. A. Blackwood in saying that the closing rather than the widening of the trade gap would be most welcome.

China in 1951 took exports through Hongkong amounting to the prodigious sum of \$1,600 m., whereas in 1955 the total was \$180 m. The decline has been continuous over the years since 1951 and seems to be gathering speed as it goes on. The last half-year of 1955, for example, showed exports to China down to the ridiculous figure of \$59 m. This justified the Chairman of the Chamber's comment that China is looking elsewhere for goods which Hongkong could supply to her now—apart from having to look elsewhere for certain categories of goods under embargo. "We are evidently not regarded as a trading partner offering a range which makes us a worth-while market," he said, "despite all the advantages of proximity, services and experience." He and traders generally await with some impatience the outcome of the promised reconsideration of the COCOM schedules so as to bring the China embargoes more closely into line with the more liberal list applying to Russia.

The American apologists for the ban know quite well that China is getting all the strategic

goods she needs from other sources, and that the bans are merely self-denying ordinances which do not prevent China from getting the industrial equipment she needs. Only a week or two ago she bought ten sets of industrial equipment at the Leipzig Fair from East Germany. The argument which now seeks to justify the bans is that expectations of greatly increased trade from their withdrawal are all wrong. China, like the Soviet Union—whose trade with the outside and especially the free world is negligible—is bent on self-containment, and even if the bans went, there would be no substantial increase.

A modification of the bans will apply a serious test to this contention, and China's reaction thereto will be closely watched. There is a danger that the Communist bloc will impose a purely political complexion on all economic exchanges. If so the free world may well have to wait for some spectacular swing of the political pendulum before trade exchanges will return to their former channels.

The trade with China also figured prominently in the speech of the Chairman of the Hongkong and Shanghai Bank (the Hon. Cedric Blaker). Taking, as is natural, a wider horizon for his survey, he bracketed Malaya with Hongkong in mentioning the sacrifices involved in the trade bans. Malaya's inability to sell rubber to China is, of course, a most serious matter, even if China is getting some of it at least indirectly. Rubber was a big element in the almost fabulous figures of exports to China through Hongkong in 1950/51. "There is the danger that, if no substantial relaxation comes soon, the trade lost with China may never be recovered." All British merchants and bankers would welcome the abolition of the embargoes, though all have done their best to observe them. It was sufficiently remarkable that, in spite of all, the Bank Chairman could still say that the year had been a satisfactory one—"political differences have not been too acute and economic development has made progress."

It was his next sentence which provided the major keynote of this long and comprehensive survey on the finance and economy of Asia. "The countries of Asia are moving along paths of their own choosing and foreign merchants and bankers must adapt themselves to these changing conditions," said Mr Blaker. He remarked that shareholders of the Bank who knew China in the days before the present People's Government must surely find it difficult to adapt their minds to the real meaning of the official Chinese policy on present-day rural, sociological, and industrial matters in that country. Even in Hongkong, close as it is to the Chinese scene, it was hard to keep pace with and evaluate the day-to-day economic and industrial changes and developments which were being so rapidly evolved. Nor did they know, neither could they judge, how the Chinese people as a whole—and particularly the agricultural population—were reacting to the kaleidoscopic events which had affected their lives and livelihood so closely in the last few years.

"Collectivization is certainly proceeding with ruthless vigour: at the same time almost the whole range of agricultural production is being directed and controlled from above in a way which has had no previous parallel in Asia. This line of policy is, of course, tied up with the current Five Year Plan and with industrialization. The whole picture reveals remarkable speed of development. There is special concentration on heavy industries, with extensive Russian help. Railway and road communications are being opened up at an astonishing pace, even if allowances are made for some work of a rough and temporary nature. The key-point in the economic policy of China has been summarised as follows: to build a Socialist society, which cannot be raised on the foundations of a small-peasant economy; its foundations must be based on large-scale industry and large-scale collective farming."

The Chairman mentioned that the Sino-British Trade Committee had recently been informed by the Chinese Government that they see no object

THE PROBLEM OF CITIZENSHIP IN MALAYA

One of the more difficult problems which face the new Government in Malaya is the status of the "Queen's Chinese," who were born in the old Straits Settlements and are therefore British subjects, not subjects of the Malay rulers. The Straits British Association is a powerful body and some of its members have expressed themselves vigorously on the retention of their British status. The President of the Peking branch, the rubber magnate Mr. Heah Joo Seang, accused the British Government of having let them down badly. "For generations," he said, "we have maintained our proud traditions and made loyal sacrifices. Now it seems the British Government had agreed to our status being changed, without even consulting us." Their future was thus jeopardised, he added, and the time had come to do everything they could to protect their interests. The committee of the Association had arranged to meet in secret to discuss what steps should be taken to protect and safeguard the status of the Queen's Chinese in the Settlement. He challenged the right of the Merdeka mission to write off the Straits-born Chinese without granting them any representation in the London talks. The Vice-President of the Singapore branch of the Association took a much milder view of the situation and said self-government was the best antidote to Communism.

A larger question was raised in the Press as to who exactly is a Malayan. It has been raised before, without anything in the nature of a positive official answer. To the simple suggestion that all who were born in Malaya are Malaysians exceptions and enlargements have been made. One correspondent urged that a Malayan is one who owes allegiance to Malaya only: "a person who takes United Kingdom citizenship and holds a foreign passport cannot be called a Malayan." Mr. G. H. Kiat, a prominent official of the S.C.B.A., held that Malaysians are those who are not only born but are also bred in Malaya. The President of the Indian Association urged that a fair definition was "any person who serves Malaya throughout his life," adding that this had to be so because few people in Malaya could claim to be the original people of the land.

The Chairman of the Bar Committee, Mr. J. C. Cobbett, put forward the interpretation that anyone is a Malayan who has lived there for a considerable period. A retired District Judge confessed it was a really difficult thing to

in any further visits of member-firms until there is a considerable relaxation of the embargo. Mr. Blaker here added that he was sure a great deal of good would result if it were made easier for individual merchants to visit China to discuss their own particular business problems. While China naturally drew much attention, the Chairman's speech ranged over the wide field of all Asia, from Japan to India, and indeed to the U.S. also. The survey of conditions in the various areas of South-east Asia was of special interest, in the light of events in Indonesia, in former French Indochina, and in Malaya, and those who are especially interested in those areas, will no doubt turn to the full report for guidance. The events in these areas are reviewed soberly, but confidently, and in a manner that corrects the false impressions often hastily derived from spectacular but sporadic incidents.

define. He said he didn't like the word anyway and didn't understand what a Malayan is. When the Malayanisation Commission asked for a definition it got three different answers. The chief spokesman for the local officers, Mr. K. M. Byrne, said it was generally accepted that anyone born in Malaya was a Malayan, with exceptions in favour of children born abroad to Malayan parents. The President of the Federation of Unions of Government Employees, Mr. N. A. Kularajah, said that the definition Malayan should include anyone who wanted to make Malaya his home. But Mr. L. C. Goh, another representative of the local officers, defined a Malayan as a person who is "prepared to lay down his life for Malaya."

The Chief Minister of Malaya himself told London interviewers there is to be a common Malayan nationality. There would have to be "certain qualifications" for it, meaning presumably qualifications other than birth in the Federation. That does not take the solution very far. The State Rulers and UMNO have moved a long way since 1948 but the aspirations of the domiciled communities have not been fully met. As a Singapore contemporary emphasised, it is difficult to see how the question can be totally excluded from the terms of reference, if only because the future of the two British Settlements cannot be decided without assurances as to the full national status of all those who were born there.

Dato Sir Onn bin Ja'afar touched on the problem in a speech in Penang. He pointed out that there are three distinct solutions for the future of Penang and Malacca, British Settlements whose sovereign is the Queen. The Federation Agreement of 1948 did not alter their political status or the nationality of their residents. Federal citizenship is not a nationality. How are the Settlements going to be consulted under a unitary Federation headed by one of a rotation of nine Sultans? The Settlements are not mentioned anywhere in the London agreement. It is hard to see what the solution is going to be, or even how the unique solution of nine Sultans with a single, and changing, sovereign head, will be applied to the nine Malay States. But in constitutional matters the British have shown more versatility than any people who ever lived. The Commonwealth has no precedent in world history and the Constitutions of the various members have no parallel for variety. There has been an extraordinary ability to let established facts speak for themselves, rather than to batten down these facts into a single, uniform mould, as in the Communist bloc. There is likewise the issue of citizenship, on the happy solution of which the whole MCA-UMNO Alliance depends.

Dato Sir Onn bin Ja'afar's three points on the Settlements were (1) the British could hand over the Settlements to the Federation; (2) Penang could become a separate unit of equal status with the Malay States within the Federation; and (3) Penang could revert to its pre-war status as a unit of the British Crown Colony of the Straits Settlements together with Singapore and Malacca. Malay correspondents quickly raised objection. One pointed out that Penang and Province Wellesley belong to Kedah, which still received M\$10,000 per annum for the lease of the territories.

The Vice-President of the Singapore SCBA (Mr. G. H. Kiat) put forward the Malay adage that "when you have crossed the river do not throw away the stick" as his retort to what he called the "harsh and hard words" directed against expatriate officers during the sitting of the Commission in Singapore. The Chief Minister, in an interview on his return

THE HONGKONG AND SHANGHAI BANKING CORPORATION

STATEMENT OF THE CHAIRMAN, THE HONOURABLE, C. BLAKER, M.C., E.D.

In my statement last year I was able to record that an improvement in the cold war had been noticeable. I am now able to say that this trend continued during the summer of 1955 when the climate in international relations became distinctly milder with the meeting of the heads of governments and the feeling that a new spirit had been generated—the spirit of Geneva. Unfortunately the meeting of the Foreign Ministers in the autumn, with the deadlock over Germany, brought a lowering of the temperature which recent events in the Middle East have done nothing to improve.

Looking at the year as a whole, however, there seems to be ground for hope that the danger of war has been lessened, both as a result of the various discussions that have taken place and the growing feeling that the power of modern weapons has produced a form of stalemate. In the Far East there has been a period of quiet—as Mr. Macmillan put it in a speech in Parliament in December—“A sort of de facto stabilization had been secured in the Far East at the expense of varying degrees of partition.” Thus, although there remain a number of difficult international questions on which agreement has not been reached, these have not developed to such an extent as to give rise to any fresh disturbances.

Agreement was reached on the introduction of sixteen new members to the United Nations in December, thus ending a deadlock which had existed for many years. We particularly welcome the membership of Ceylon, whose influence in world affairs continued to increase, and the two new states of Cambodia and Laos. It is, however, most regrettable that Japan was not elected at the same time and I hope that during the next session some settlement will enable this important country to be represented.

Amongst the many conferences that were held during the year, the one at Bandung last April of Asian and African powers was of particular significance to this area. As has

to Kuala Lumpur, told a Penang correspondent that Penang residents need have no fear of anyone's will being imposed upon them in respect of their future status in an independent Malaya. Individuals as well as groups and organisations will have ample opportunities to present their views to the Constitutional Commission that is to be set up. He added that he was not aware of the Straits Chinese British Association's moves to bring their case to H.M. the Queen.

The indication that Malaya may learn something from the experience and pattern of the new regime in Nigeria, where there are virtually three separate Governments' in one was revealed by the Chief Minister on February 21, when he told reporters how the idea germinated of calling a conference of British Colonial territories approaching independence. At a Labour Party luncheon the Tengku met three Nigerian representatives who showed great interest in the political growth of Malaya. The Tengku, for his part, was eager to learn more of Nigerian progress. It then occurred to him that a get-together of these countries with mutual problems would be valuable. The conference is tentatively scheduled to meet in Kuala Lumpur some time in May or June and a Labour M.P. in London is acting in behalf of the Malayan Alliance in arranging invitations.

frequently been the case recently, it was not the decisions reached which gave this conference its importance but the fact that twenty-nine nations, many of whose sovereignty is of comparatively recent date and with different political forms of government, were able to discuss their common problems in a spirit of compromise. To quote from a leading British weekly periodical, “Nothing new was created; but the emancipation of the greater part of southern Asia was solemnly placed on record, and the lines along which this vast area of the world hopes to advance were made a little clearer.”

In the economic sphere considerable industrial expansion continued and in many of the more highly developed countries there were indications that the economy was becoming over-strained. A growing industrial demand for materials and labour, coupled with a high level of employment, resulted in active or threatened domestic inflation which, in some countries, was having an adverse effect on the balance of payments.

The measures taken to combat these dangers varied from country to country but the main emphasis was on monetary rather than on physical controls, on dearer money rather than on restriction of imports. This was an important development but under present conditions, with high taxation, the cost of borrowing is no longer the restraining influence it once was and the great increase in the public sector made supplementary action by governments necessary. Thus raising the bank rate was found to have only a limited effect and it may well be that the role of monetary policy in the economy of today has not yet been finally determined.

In the United Kingdom the pressure of consumer and investment demand brought a continuing rise in prices with a high level of imports which had an adverse effect on the balance of payments. The bank rate was increased to 4½% in February 1955 but this did not reduce the expansion of credit quickly enough and in July the Chancellor exhorted the banks to make “a positive and significant reduction in their advances”. A supplementary budget followed in October and last month a further increase was made in the bank rate with measures to restrict capital investment and to reduce certain food subsidies. It is too early yet to gauge how effective these steps will be or whether more will be required.

A review of conditions in the United Kingdom is outside the scope of these Annual Statements, but the importance to the Bank and to the countries which it serves, of the standing of Sterling needs no elaboration and I hope therefore that the efforts being made to protect the internal value of the Pound will be successful. The high bank rate has resulted in a considerable drop in the value of gilt-edged securities, but you will notice that we have continued as in previous years to show these in our Balance Sheet at under market value.

In the Asian countries in which most of our branches are situated progress continued to be made in the carrying out of the various development plants, but in many cases second thoughts had to be given to the targets and the speed at which they could be reached. The restricting factors here were, however, mainly lack of capital and shortage

of trained technicians. These continued to limit the improvement in agriculture and industrial development which expanding populations make so necessary. Although dearer money was resorted to and had a limited effect in urban economies such as Hongkong's, it was not in these countries the real answer to the problem. This was not to restrict demand in an over-expanded economy, but to improve the productive resources quickly enough to provide work for the growing population and at the same time to increase the supply of food and consumer goods to meet the requirements arising as a result of industrialisation.

AID FOR UNDER-DEVELOPED COUNTRIES

The Colombo Plan has been referred to from this Chair on numerous occasions and the importance of it has been stressed not only because of the continuing need for economic assistance in South East Asia, but also for the reason that this Plan has generally found favour with the countries in the area. The report by the Council for Technical Co-operation in South and South East Asia for 1954/5 shows that continued progress has been made in providing assistance in training technicians and supplying experts to aid development schemes. It was encouraging to see that while much of the assistance came from outside the area considerable progress was made in mutual aid. The report lays particular stress on the need for "a steady and ever-increasing supply of skilled administrators and technicians" who should be given "full opportunities to use their newly acquired skill at home." It recommends that "counterparts or understudies should be assigned to the expert on continuing projects so as to ensure continuity" and that new projects are "allotted the right priority". The shortage of trained personnel is probably the most serious limiting factor in the plans of these countries for greater industrialisation and the recommendations in this report deserve serious consideration. The meeting of the Consultative Committee was held in Singapore in October and made the welcome decision that the Colombo Plan would be extended from July 1957 to 30th June, 1961, and that the future of the Plan would be considered in 1959. Considerable increases in aid were promised and although certain of the members felt that larger amounts of external capital were required the meeting appeared generally satisfied with the progress made. In addition to the Colombo Plan, assistance continues to be granted by the U.S. International Co-operation Administration, various United Nations agencies and the International Bank for Reconstruction and Development. A new corporation, an affiliate of the International Bank, the "International Finance Corporation", to which I referred last year, is in process of formation. This organisation will have power to invest in productive private enterprises without the necessity of a government guarantee, which is a prerequisite of all International Bank loans. The total capital proposed is U.S.\$100 millions, but the Corporation cannot be brought into existence until at least thirty countries, with subscriptions amounting to U.S.\$75 millions, have given their formal acceptance. Several countries have already taken this step including the United States and the United Kingdom, and it seems likely that there will be no difficulties in the establishment of this new organisation, which should be of considerable benefit to under-developed areas.

CHINA

Shareholders of the Bank who knew China in the days prior to the establishment of the Government of the People's Republic of China must surely find it difficult to adapt their minds to the real meaning of the official Chinese policy on present day rural, industrial and sociological matters

in that country. There are many pessimists just as there are many optimists in regard to the future of China but lack of information, other than official pronouncements, leaves many with a feeling of uncertainty. Even here in Hongkong, close as we are to the Chinese scene, we find it hard to keep pace with and to evaluate the day to day economic and industrial changes and developments which are so rapidly being evolved. Nor do we know, neither can we judge, how the Chinese people as a whole—and particularly the agricultural population—are reacting to the kaleidoscopic events which have affected their lives and livelihood so closely in the last few years.

Collectivization is certainly proceeding with ruthless vigour: at the same time almost the whole range of agricultural production is being directed and controlled from above in a way which has had no previous parallel in Asia. This line of policy is, of course, tied up with the current Five Year Plan and with industrialisation. The whole picture reveals remarkable speed of development. There is special concentration on heavy industries with extensive Russian help. Railway and road communications are being opened up at an astonishing pace, even if allowances are made for some work of a rough and temporary nature.

The key point in the economic policy of China has been summarized as follows: to build a socialist society, which cannot be raised on the foundations of a small-peasant economy: its foundations must be based on large-scale industry and large-scale collective farming.

Such being the fixed policy of the Chinese Government, if British merchants are to retain a share in the China trade and take advantage of the situation, it is important that British policy should be re-examined in collaboration with other friendly governments. No action of the kind we have in mind can however be taken until there is a considerable reduction of the items on the embargo list. The question of the embargo has raised so much controversy in recent years that it has not been easy to discuss it objectively and there are still no signs of any narrowing of the gap between the two points of view. Although we have done our best to carry out not only the letter but the spirit of this embargo we make no secret of the fact that, like almost all British merchants and bankers interested in the China trade, we will welcome the day it is abolished but as total abolition cannot be quickly brought about, linked as it is with numerous other problems, we are contenting ourselves for the time being with advocating the reduction of the Chinese embargo list to make it similar to the Russian list. This would seem to be the logical solution as it is idle to suppose that China is not able to obtain goods shipped from the West to Russia. Instances have in fact occurred where China has exported to Hongkong goods which are not permitted to be sent into China under the embargo. We had hoped that at the recent talks in Washington some form of agreement of this nature would have been reached but it appears that all that was decided was that a review of the control of trade with China would be made.

Both Hongkong and Malaya have suffered greatly as a result of this embargo and there is the danger, particularly for Hongkong and to a lesser degree for Malaya, that, if no substantial relaxation comes soon, the trade lost may never be regained. China is already leaning heavily on supplies from Eastern European countries and this trend is likely to increase so long as the emphasis on all arrangements for exchange of goods with China is on bilateral agreements. With the overall control of the economy which the Chinese Government now exercises, bilateral and barter agreements may be difficult to avoid but under freer conditions the advantage of dealing with Hongkong merchants, experienced as they are in supplying the China market, would no doubt be appreciated. The Sino-British Trade

Committee have recently been informed by the Chinese Government that they see no object in any further visits until there is a considerable relaxation of the embargo. This may be so as far as large parties are concerned but I am sure that a great deal of good would result if it were made easier for individual merchants to visit China to discuss their own particular business problems.

Negotiations regarding the winding up of our affairs in China have made considerable progress during the year and we have been able to reach a settlement of our local currency position but there have been no further developments in respect of our foreign currency liabilities. This settlement has not been made without cost to the Bank but under the circumstances no other course was open to us. Mr. Yoxall, our Manager in Shanghai, who bore the brunt of the negotiations, finally obtained permission to leave and has now retired.

HONGKONG

Hongkong has not featured much in world news during the last year but this lack of publicity has not meant that progress has not been made but only that it has been steady rather than spectacular. We were pleased to welcome the Secretary of State for the Colonies, Mr. Lennox-Boyd, who, in his short visit, managed to see a very large part of the Colony. The squatter resettlement programme, which has been made necessary by the large influx of refugees, has always seemed to us to be one of the post-war developments of which we can be most proud and it was encouraging to find this distinguished observer describing it as "one of the most stupendous achievements I have ever seen." On the day of his departure he announced that the term of office of His Excellency The Governor, Sir Alexander Grantham, had been extended until 1957. This was extremely welcome news as Sir Alexander has a very special place in our affections and we are grateful to him for agreeing to defer his well earned retirement.

The necessity for an improvement to the air-port, to bring it up to modern international standards, has been mentioned many times from this chair and I am glad that this year I am able to report that the contract for the new runway was awarded in August and that considerable progress has already been made. Nature bestowed on Hongkong geographical features which facilitated the construction of a harbour but she has not been as kind over the air-port and this will be a costly project. Another large engineering work is nearing completion—the Tai Lam Chung water supply scheme—which will substantially increase our water storage facilities. The consumption of water however, even under the strict rationing to which we are subjected, continues to rise—as it must do with a growing population and increasing industrial development—and it seems obvious that some site for another reservoir will require to be found without undue delay. The recent remarks of the Governor on investigations on Lantau Island show that the Government has this matter very much in mind. I mentioned above the squatter resettlement scheme but this is only part of the immense housing problem with which Hongkong is faced. A visitor arriving here after an absence of some years and seeing all the extensive building that has taken place might be tempted to think that the housing problem was being adequately taken care of but this is unfortunately only partly true. Many of the poorer members of the community are very badly housed and to supply them with better living accommodation at a reasonable cost is a most urgent social need. In view of the importance of this problem the appointment last month by His Excellency The Governor, of a committee with wide terms of reference to investigate the Colony's housing problem in all its aspects was most welcome.

The development of local industries, which has been such an important feature of recent years, continued and 372 new factories were registered during the year while the production of electricity increased by 15%. Energetic efforts were made to develop new markets and there are welcome signs that the importance of maintaining uniform standards of quality is being more readily understood. The formation of the Hongkong Exporters Association, with a committee composed of many of our leading merchant houses, should greatly assist the marketing of the products of our industries. An invisible export is provided by the large numbers of tourists, both service and civilian, who visit Hongkong each year. It has been proposed that a Hongkong Tourist Association should be formed to develop our tourist trade and a working committee of representatives of the interests concerned was appointed in August to look into the question.

Trade of Hongkong: Hongkong's trade in 1955 increased by 7% in value while volume showed a rise of 14%. It is encouraging that the rise has been steady over the last few months of the year and that exports of Hongkong products continue to increase. Exports to the United Kingdom increased by H.K.\$89 millions. This will not cause any surprise to shareholders, who will no doubt have seen many references to this subject in the press, but imports from that country also rose by H.K.\$72 millions which is given considerably less publicity. Even now our exports to the United Kingdom are still only 57% of our imports from there. Trade with China in total was about the same as in 1954 but the drop of just over H.K.\$200 millions in exports was offset by a rise in imports of a similar amount. This decrease in exports was caused by a considerable reduction in each of the three largest groups of commodities—namely dyestuffs, fertilizers and pharmaceuticals—which we have recently been shipping to China. Trade with other East Asian countries showed an overall increase and it was encouraging to see the steady rise in exports to Indonesia, Indochina and Thailand in the closing months of the year.

Business on the Stock Exchange continued to be very active and the volume for the first six months of the year was greater than that for the same period in 1954. In July the turnover was more than double the figure for June and there were signs that these almost boom conditions were having a disturbing effect on the economy, which if not checked, might result in more serious developments. The rise in short term money rates in so many countries was also beginning to be felt in Hongkong and, after consultation with the Government, we and the other note issuing banks raised our interest rates in August. This we followed in November by a reduction in the percentage of market value which we would normally advance against shares. These measures were aimed at curbing further expansion of credit for speculation and have in our opinion resulted in a healthier position in the market. The price of land continued its upward movement and some very valuable properties changed hands. There were, however, signs towards the end of the year of a slackening of demand and it may be that the peak has been reached for the time being.

Finances of Hongkong: The Financial Secretary, Mr. A. G. Clarke, in his speech in the Legislative Council at the end of last month, when he presented the Budget, was able to show that the Colony's finances are in a very healthy state. A surplus of over H.K.\$16 millions was expected for the current year which was brought about by both higher revenue and lower expenditure than was estimated. Salaries and Profits tax showed a fall but this was more than made up by rises under other headings, a large part of which was due to the active conditions in the property market and building trades. For the financial year 1956/57 a deficit

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ECONOMIC REVIEW OF JAPAN

FOREIGN TRADE AND PAYMENTS

More foreign exchange in imports

One of the most striking features of the Japanese economy in recent months has been the rise in exports, which is the result partly of the high levels of demand in North America and Western Europe, partly of the Japanese export drive. It is now estimated that exports in the current fiscal year (April 1955 to March 1956) will bring in more than \$1,900 million instead of £1,600 million as originally expected. It has therefore been possible to increase the allocation of foreign exchange for imports in the second half of the fiscal year to \$1,588 million. This compares with \$1,300 million in the first half of the year and \$1,250 million in the second half of the 1954 fiscal year.

Appropriations for goods total \$1,314 million and for invisibles \$274 million. In drawing up the foreign exchange budget the government's principal aims were to proceed cautiously towards a progressive liberalisation of trade (imports under the Automatic Approval System have been slightly increased and provisions for barter trade decreased), to ensure raw material supplies for the export industries, to make possible the abolition of rice rationing in the near future, to restrict supplies of raw cotton, and to fulfil obligations under the new trade agreement with the sterling area.

The import of materials for the iron and steel industry (excluding coal) will be more than twice as big as in the same period last year, while that of chemicals is expected to rise by 40 per cent, of non-ferrous metals by 27 per cent, and of coal by 23 per cent. In spite of a bumper harvest rice imports have been raised from 503,000 tons in the original plan to 620,000 tons in the present one and wheat imports from 960,000 tons to over a million tons. Cotton imports have, however, been cut from 1.23 to 1.14 million bales. In earnest of a desire to buy more sterling area goods, planned imports of wool have been raised by 40,000 bales to 400,000 bales and of crude petroleum from 23 to 33 million barrels. \$63 million has been set aside for imports of machinery; this is \$30 million higher than in the first half of the fiscal year and nearly \$10 million more than in the second half of 1954 fiscal.

Favourable payments balance April—September

These extra imports are expected to lead to a small deficit on current payments in the second half of the fiscal

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year. Current payments for the fiscal year as a whole should, in accordance with present calculations, show a favourable balance of \$212 million (against an original estimate of only \$22 million); but in the first half of the year alone there was a surplus of \$233 million. With the dollar area (which in this context includes Switzerland) there was a favourable balance of \$220 million, and with the sterling area of \$29 million, but with the open account countries there was a deficit of \$16 million.

While the general trend in payments is towards improvement the position vis-a-vis certain currency areas is again changing. Export gains in the North American market have nearly wiped out the usual deficit on visible trade, while invisible dollar earnings have fallen less steeply than was once feared, because special procurement on visible trade with the dollar area appears to be a continuing trend; but in the case of the sterling area the surplus on current payments is now falling whereas last year it was rising steeply. According to balance-of-payments statistics exports to the sterling area between the first halves of 1954 and 1955 fiscal years rose by \$125 million to \$368 million, but at the same time imports from there rose by \$137 million to \$302 million. If the new Anglo-Japanese agreement does in fact lead to still higher imports of sterling area goods then the Japanese may once again find themselves in deficit with the sterling area. With the open account area the deficit which appeared in the second half of the last fiscal year continues but at a reduced level.

Rise in foreign exchange holdings

A certain amount of the current surplus is of a transient character since it results from the use of short-term credits, mainly from London and New York, which enter into the "current payments" category in the Japanese statistics. When these are taken into account the total favourable balance in the first half of this fiscal year falls to \$144 million compared with \$43 million in the first half of 1954 fiscal. Unsettled liabilities of this nature with the dollar area amount to some \$60 million and with the sterling area to \$26 million.

Foreign exchange holdings have climbed rapidly during the year and totalled over \$1,300 million at the end of September, including short-term credits. The total is expected to fall slightly by the end of March 1956 and real reserves, that is excluding deferred short-term liabilities, should then be about \$1,113 million against \$803 million at the beginning of the fiscal year. Dollar holdings are rising, but holdings of sterling, after reaching a peak of some £104 million, are now declining.

D.M. as a trade settlement currency

As a result of the new Trade and Payments agreement between Federal Germany and Japan, which came into force

CURRENT BALANCE OF PAYMENTS (million \$)

	\$ Area				\$ Area				Open Account Area			
	April- Sept. 1954	Oct. 1954 March 1955	April- Sept. 1955	April- Sept. 1954	Oct. 1954 March 1955	April- Sept. 1955	April- Sept. 1954	Oct. 1954 March 1955	April- Sept. 1955			
Trade	-331	-145	- 27	+ 78	+178	+ 66	+ 25	+ 30	+ 13			
Invisibles	+322	+222	+247	- 19	- 17	- 27	+ 4	- 3	- 3			
Total	- 9	+ 77	+220	+ 59	+161	+ 29	+ 29	+ 27	- 16			

on October 1st, the limited convertible mark has now joined the pound, dollar (American and Canadian) and Swiss franc as a designated currency for the settlement of trade. Open account dollars are no longer used in payment between the two countries. Japanese importers pay for German goods in marks or pounds sterling, but Japanese exporters may still receive payments in \$ as well as in £ and D.M. Foreign exchange banks may hold mark accounts in German banks, but they can only sell marks to the Japanese Ministry of Finance through the intermediary of £. The yen/DM exchange rate is based on the £ cross rate (itself based on the \$ cross rate); the first rate, arbitrated on October 1st, was 85.66 yen = 1 DM.

Higher exports of steel and textiles

The greater part of the rise in exports is accounted for by higher sales of metal and metal products and of textiles. Customs House returns show that between the first six months of the 1954 and 1955 fiscal years exports rose by \$179 million, from \$794 million to \$972 million. Shipments of metals and metal goods were up by more than \$80 million; steel exports were up by \$54 million (or 72 per cent) and exports of non-ferrous metals by \$16 million (114 per cent) and of metal products by \$12 million (60 per cent). Giving details of the contracts concluded during the period, the Japanese Iron and Steel Federation said that the total volume amounted to 1.3 million tons and the value to \$175 million. Argentina was the main buyer (with 465,000 tons) followed by India (170,000 tons) and Australia (106,000 tons). No further increase is, however, expected in the next few months—capacity is already fully extended, the price situation is uncertain and political troubles in Argentina are narrowing the market there.

Although exports of cotton yarn and fabrics are rather lower than they were a year ago the textile group as a whole in the period April-September 1955 exported \$50 million more than in the same months of 1954; exports of rayon fabric rose by \$19 million (38 per cent) and of clothing by \$29 million (110 per cent). Other products which have been doing well recently include toys, timber, cement and china.

Gains in many markets

There are few countries in which Japanese goods are not making progress. The main ones are Mexico, Brazil, the Union of South Africa, the Belgian Congo, Pakistan, Formosa, Indonesia, Spain and South Korea. The drop in trade with Pakistan between this and last year represents merely a return to more normal levels after the completion of heavy deliveries of capital equipment in 1954; in the case of the Asian countries political factors, including the Japanese attitude to the Soviet bloc and the question of unsettled reparations, are largely responsible for holding up the development of trade.

DIRECTION OF JAPANESE EXPORTS

	1955		% of total trade	
	Mill \$	% Increase over 1954	1954	1955
North America	166.0	47	19	22
Central America	12.2	47	1	2
South America	48.8	— 17	10	7
N. W. Europe	77.5	141	5	10
S. Europe	5.7	— 27	1	1
E. Europe (including Yugoslavia)	12.2	1,255	—	2
Middle East	42.3	26	6	6
Other Asia	287.0	— 2	49	39
Oceania	24.0	166	1	3
Africa	56.7	44	7	8
TOTAL	732.5	23	100	100

In North and Central America, Northern and Eastern Europe, the Middle East, Oceania and many parts of Africa Japanese gains have been remarkable. North America is now taking some 22 per cent of all Japanese exports against 19 per cent last year, North-Western Europe 10 per cent against 5 per cent, Oceania 3 per cent against 1 per cent and Africa 8 per cent against 7 per cent.

Success in the U.S.

Even before the tariff reductions granted by the United States came into force on September 10th with Japan's entry into GATT as a full member, exports to the U.S. were rising sharply and for the year as a whole they will probably reach a postwar peak of between \$350 and \$400 million. Improvements in design and quality have enabled Japanese manufacturers to break into the market for a wide range of consumer goods, including costume jewellery, glass, pottery, leatherware, floor and wall coverings; at the same time basic exports, such as cotton textiles, are selling better than ever before. In the first half of 1955 the U.S. bought 45 million square yards of Japanese cotton piece goods against 49 million in the whole of 1954. For some types of material Japan is now supplying a sizeable part of total U.S. requirements; for example, the 9 million yards of velveteen which it expects to export to the U.S. this year will supply 65 per cent of the American market, and gingham imports from Japan, amounting to about 34 million square yards, will be equal to 35 per cent of U.S. production. In addition exports of cotton shirts and blouses to the U.S., which in 1954 totalled 189,000 dozen, and rocketed to 1.7 million dozen in the first eight months of this year, are likely to exceed 2 million dozen by the end of December. Japanese tablecloths, sheets and pillowcases have experienced gains not much less sensational and some types of woollen goods are also selling well. Manufacturers of radio components are planning an attack on the U.S. market.

Controls on textile exports

In the face of this onslaught American manufacturers are urgently demanding protection in the form of quotas or higher duties. The American Cotton Manufacturers Institute contends that the Agricultural Adjustment Act authorises quotas not only on price-supported farm commodities, such as cotton, but on their products too. The Japanese, fearing that the U.S. Administration will be forced to accede to these demands, are intensifying their efforts to build up a good name as traders and to prevent irresponsible elements from damaging future prospects in so valuable a market. With the authority of the Ministry for Trade and Industry the Japanese Association of Cotton Textile Exporters has introduced a series of measures to control the export of blouses and shirts to the U.S. and Canada. In future the garments must be made of pre-shrunk materials with a minimum count of 150 threads to the inch; all dyes must be wash-fast; and the following minimum f.o.b. prices have been fixed: (\$ per dozen shirts or blouses).

	Sleeveless	Short Sleeved	Long Sleeved
Gingham	4.70	5.15	6.90
Poplin (bleached)	4.50	4.90	7.40
Poplin (printed)	4.90	5.35	8.00
Other materials	4.50	4.90	6.90

Each member must deposit with the Association for one year 0.5 per cent of the value of every North American export contract; if he fails to comply with the agreement he forfeits the money.

At the same time the Japanese Government and textile interests have agreed in principle to restrict shipments

of cotton textiles to America and European markets by means of quotas in order to allay charges of dumping, and to cut down the number of exporting firms. The Japanese Wool Spinners' Association has made it obligatory for the members to indicate the country of origin on woollen fabrics marked in foreign languages and has condemned the use of markings such as "Made as in England"—with "as" in microscopic letters.

Better markets for sterling goods

After four months of negotiations a new Anglo-Japanese trade and payments agreement was initialled on October 17th. In it the Japanese recognise the principle that the expansion of Japanese exports to the sterling area can take place only against bigger imports of sterling area goods. Though the agreement remains in force for a year trade budgeting is limited to six months. In this period £127.5 million will be set aside for sterling imports compared with about £80 million in the six months October 1954 to March 1955. The Japanese have agreed to remove all existing discriminatory restrictions against sterling goods; Japanese importers are no longer required to make a higher collateral deposit on sterling than on dollar or open account goods; the merit system whereby commodities from certain countries were favoured at the expense of others has been abolished; and the list of goods which may be imported under the Automatic Approval System has been extended to cover a number of sterling area products. British exporters will benefit from the fact that additional quotas up to a total of £3 million have been granted for a number of U.K. manufactured products and the quota for British wool textile imports into Japan has been raised from £2 million to £2.8 million. Quotas for whisky and confectionery remains unchanged. There has also been a concession with regard to invisible earnings, in that past earnings—hitherto blocked—and future profits of British film companies in Japan may now be remitted, and the Japanese have promised to facilitate the remittance of other business profits.

Trade with the Commonwealth

In return for these concessions the British authorities have agreed to maintain all existing open general licence facilities and quotas under the 1954 agreement including an annual quota of £3 million for grey cloth and to increase imports of Japanese canned salmon from £2.2 million to £4.7 million. The colonial territories will continue to import Japanese goods in accordance with their requirements which, as the following figures show, are at present rising:

JAPANESE EXPORTS TO CERTAIN BRITISH COLONIAL TERRITORIES

(Million £)

	January—May	
	1954	1955
Aden	—	3.8
Hongkong	25.0	33.5
Malaya, Singapore	13.8	31.2
Uganda	0.2	0.6
Tanganyika	0.1	3.4
Kenya	0.2	0.6
Gold Coast	3.1	7.1
Nigeria	6.6	13.6

The Dominions, too, with the exception of Pakistan and South Africa, have been taking substantially more Japanese goods this year than last year. In the first five months of 1955 Japanese exports to Canada reached \$13.6 million (against \$5.4 million in January to May 1954), to Australia \$20.1 million (\$7.7 million), to New Zealand \$2.1 million (\$0.1 million), to India \$33.8 million (\$9.5 million) and to Ceylon \$6.9 million (\$4.5 million).

Under the new agreement payments with the sterling area are expected to balance at about \$250 million a year, which represents an increase of some £40 million over the 1954 agreement. From the way in which things are going at present it looks as though the chances of achieving a balance are very much better now than they were a year ago and that there is little need to fear a further accumulation of sterling holdings in Japan. The position will be reviewed in the spring, when details of trade for the second half of the 12 month period will be fixed. In the meanwhile preliminary talks have started in Tokyo for the conclusion of a treaty of commerce and navigation.

Trade with the Soviet bloc

China

Japanese trade with the Soviet bloc, like that with other areas, has increased markedly this year in spite of the continued ban on the export of strategic goods to China and of the lack of official representation in Communist countries. In the first eight months of 1955 Japanese exports to China reached \$18.2 million against \$19.1 million in the whole of 1954 and only \$4.5 million in 1953. Imports from China totalled \$48.5 million, which is \$8 million more than in the whole of 1954. The annual rate of imports is thus approaching the \$84 million envisaged in the May trade agreement, though Japanese exports are still well below that target. With the approval of Chincom private Japanese firms have recently signed a contract for the exchange of 400,000 tons of Kailan coal and 50,000 tons of iron ore against Japanese galvanised steel sheets. The coal, costing \$11.56 per ton c.i.f., is appreciably cheaper than American coking coal which is now quoted at \$16 per ton c.i.f., and will be a welcome factor in helping to keep down costs in Japan.

The Chinese continue to foster discontent among Japanese trading circles about strategic controls by painting dazzling pictures of huge markets awaiting Japanese goods and of abundant supplies of cheap raw materials. They are offering to place large orders for machinery, machine tools, ships, railway material, chemical fertilisers and rolled copper, and Japanese interests may well approach Chincom for clearance of some of the more innocuous items such as fishing boats. It is believed that a number of private contracts, other than the coal/steel deal, have already been provisionally signed. Their value may amount to some £12 million, but details are not yet available.

Eastern Europe and North Korea

Japanese businessmen have been busy in Eastern Europe, too. They have recently returned home with barter deals to a total value of some \$25 million in their pockets. Polish chemicals and agricultural products are to be bartered against Japanese ships and non-ferrous metals to a total value of \$7.5 million. The contract with Eastern Germany provides for the exchange of Japanese rolling mill products, cotton yarn, silk, etc. against German machine tools, printing presses, electrical machinery, chemicals and precision instruments to a value of \$6.4 million. Hungarian heavy industrial products, agricultural machinery and food are to be exchanged against iron and steel, ball bearings, copper wire, machinery, timber and chemicals to a value of \$4 million. With Rumania the contract is for \$5.6 million and provides for the exchange of petroleum products and machinery against metal products, chemicals and textiles. In the case of Bulgaria the total is about \$1 million and the goods to be exchanged include Bulgarian agricultural and mineral products and Japanese ships, textiles, chemicals and metal goods. A contract of about the same value has been

concluded with Czechoslovakia. In addition deals worth \$15 million (each way) and \$5 million have been concluded with North Korea and the U.S.S.R. respectively. The North Korean agreement foresees the exchange of Japanese electrical products, paper, fishing nets, etc. against coal, fluorite and red beans.

It is interesting to note that Japanese businessmen are beginning to get anxious about Soviet bloc competition in their traditional markets. They look askance at Russian and Eastern European success in getting orders for power transmission lines and generating equipment in Burma and rolling stock in India; and at the threat of growing competition from Chinese light industrial products (sewing machines, bicycles, clocks, fountain pens, chemicals, glass) in South East Asian markets and even in Africa.

Service stations for Japanese machinery

As an additional export promotion measure the Japanese machinery industry, in co-operation with exporters and with the leading banks, plans to create a company with a capital of \$250,000, whose task it will be to set up service and repair stations in foreign countries. Each such station will have five mechanics who will carry out repairs to Japanese machinery, instal new parts and make simple machine tools. The first station will be opened in Brazil this year.

The new company, in which the Japanese Government may decide to participate, will be known as Kaiga Kikai Kohatso Kaisha.

INTERNAL AFFAIRS

Two party mergers

Following the merger of the right and left wing Socialist parties at the beginning of October the right wing parties—the Liberals and the Democrats—managed at long last to patch up their differences and become on November 15th, the Liberal-Democratic party. The new party has 297 seats in the house as against the 156 held by the Socialists. The present Cabinet resigned on November 21st, and the diet re-elected Mr. Hatoyada as Prime Minister. The Vice-Premiership went to Mr. Ogata, leader of the Liberals; Mr. Shigemitsu retained the portfolio of foreign affairs.

The new party has a grandiose 6 point programme including such items as attaining economic independence and establishing a welfare society. It seems unlikely that this will necessitate any radical change in present economic policy which is already directed towards the attainment of independence—even if in the rather distant future.

Continued improvement in monetary affairs

The position of banks continues to improve. Between April and September 1955 deposits rose by 300,124 million yen against 110,706 million yen in the same months of 1954. Over two-thirds of the increase was accounted for by the city banks against less than half last year. Over the same period loans and discounts rose by only 105,398 million yen so that commercial banks were able to repay some 110,000 million yen of their borrowings from the Bank of Japan. At the end of September the amount still outstanding totalled some 136,000 million yen compared with little short of 400,000 million yen a year ago.

Because of the flourishing export trade, supplies of money have increased considerably in recent months and interest rates on the call market have fallen to 6.2 per cent p.a. compared with 8.76 per cent in June. Commercial banks can now go to market for funds instead of borrowing

from the Bank of Japan at a cost of 7.3 per cent. It is, therefore, rather surprising that the Minister of International Trade and Industry, Mr. Ishibashi, although he is a well-known supporter of expansionist policies, should have chosen this moment to advocate 'mild inflation' in order to stimulate the demand for imports and promote industrial growth. It is, however, unlikely that there will be any direct government support for a cheap money policy; the Finance Minister, Mr. Ichimada, remains strongly opposed to it.

World bank loan for steel

With export trade so brisk the Japanese steel industry is working at full stretch and the pressure on raw material supplies is sending prices sky high. In October the Ministry of International Trade and Industry was forced to introduce a temporary ban on the export of pig iron, semi-finished steel goods, steel plate, bar steel and section steel; even so total exports for the twelve months ending March 1956 will probably reach 2.2 to 2.5 million tons which is well above the planned figure, and represents about one third of total output.

At the end of October the World Bank announced that it would lend the Yawata Iron and Steel Company of Japan—the largest and oldest producer in the country—\$5.3 million for modernisation. The loan will be made through the Japan Development Bank and will finance the foreign exchange costs of importing a modern steel plate mill to be installed at the company's plant on Kyusho island in place of three old mills dating from between 1905 and 1928. The total cost of the project is about \$15.6 million. The loan, part of which has been subscribed by the Manufacturers' Trust Co. of New York without the World Bank's Guarantee, is for 15 years at 4½ per cent.

Shipping orders may exceed 2 million g.r.t.

The shipping boom continues; according to the Japan Shipbuilders' Association the volume of new orders placed by the end of October was just under 1.9 million tons with another 200,000 tons in prospect; in addition the government has financed the building of 184,000 g.r.t. and the Defence Board has ordered 85,810 g.r.t. Most of the ships are for export; in October alone foreign orders totalled 387,000 g.r.t., compared with export orders aggregating 579,000 g.r.t. in the whole of 1954/55.

As a result of the boom delivery dates are lengthening; 20 to 30 months are now normal against less than a year a short time ago. In addition prices are rising—they are reported to be slightly above British prices, whereas last year they were much lower—and Japanese builders have been forced to include escalator clauses in their contracts to cope with possible increases in building costs. Domestic steel supplies are inadequate and the Ministry of Transport has authorised the import of 200,000 tons of rolled steel before March 1956 so that shipbuilding shall not be held up. At present the average price of American rolled steel in Japan is some 50,000 yen a ton whereas the domestic price is about 47,000 yen, or £47, (against 43,000 yen earlier in the year). A special company is being set up to import steel for shipbuilding in an attempt to reduce the price by cutting out unnecessary middlemen.

The British authorities are somewhat alarmed at the government subsidized programme to expand the Japanese merchant fleet and H.M. Ambassador in Tokyo has made representations to the Ministry of International Trade and Industry. It is felt that there is no solid commercial demand for a bigger Japanese fleet and that both British and other shipping interests would be damaged if it resulted in a freight war.

Rolling stock on credit

In order to improve goods and passenger services the National Railways Corporation is to lease 810 railway cars from private manufacturers of rolling stock. The Railways' budget is insufficient for them to make an outright purchase of the vehicles needed so an arrangement has been made whereby they will pay out of the operating profits of the cars certain sums annually over the next five years to the seventeen companies involved. The total value of the contract is 3,900 million yen (\$108 million) and it covers 100 sleepers, 90 diesel cars, 200 refrigeration cars, and 420 waggons.

Cut in cotton spinning capacity?

In order to allay overseas fears of Japanese competition and to stabilize production and prices, the cotton industry is discussing measures to discard some 15 per cent of its present 8 million spindles. Some of the machines will be scrapped, others will be diverted to the production of rayon yarn. In the meantime it has been desired to prolong the 16 per cent cut in monthly output of cotton yarn until the end of the year.

Official efforts to restrain output received unexpected support in the form of a strike of 140,000 workers which lasted from October 20th to the end of the month. The stoppage arose, from a failure to get agreement by collective bargaining on a wage claim for an extra 1,000 yen (£1) a month. By the time the strike occurred the workers' demands had been reduced to 8/- a month, but the employers refused to go beyond 7/9d, and so, for over a week, the industry lost some £800,000 a day on account of a dispute about 3d. Settlement was eventually reached somewhere between the two figures. Average wages before the strike were about £12.10s. a month.

Brighter outlook for silk?

The silk industry after many years of depression is once again experiencing a rise in demand for its products in both home and foreign markets. Raw silk production in July touched a postwar peak of 31,500 bales, (of 132 lb.) an increase of 15 per cent over the July 1954 figure. Domestic consumption in the first half year, amounted to 98,400 bales against 79,000 bales in the same period of 1954, and exports to over 30,000 bales. Opinions differ as to the future development of demand; some think that the recent authorisation of an increase in price from 206,000 yen to 220,000 yen (\$610) per bale will lead to a fall in consumption, others feel that a rising standard of living in Japan will ensure a growing domestic demand.

Dow Chemicals invest in Japan

Dow Chemicals' plan to invest \$300 million in Japan for the production of polystyrene, has been officially approved.

Dow will provide technical equipment and will participate in the capital of Asahi Dow. This will be the first production of polystyrene in Japan and it is expected to find a ready market in many Far Eastern countries.

The Sumito chemical company has initialled a contract with Imperial Chemicals for technical assistance in connection with the production of polyethylene. The Japanese company intends to build a 2,000 million yen (\$5.5 million) plant at Niihama to produce 5,000 tons of polyethylene a year and 85 tons of ammonia a day.

Peaceful atoms

Japan and the United States have signed an agreement for co-operation in the peaceful use of atomic energy. The

Japanese Ministry of International Trade and Industry has asked the Ministry of Finance for a grant of 5,000 million yen (\$13.9 million) for the first year of the four year atomic energy plan, which envisages the completion of an atomic power station by 1959. A government survey group has reported deposits of pitchblender with a high uranium content in an abandoned gold-mine near Kurayoshi, in the Tottori district.

Bumper rice crop: rationing to end?

This year's rice crop was the largest in Japanese history. Official estimates put it at 76.6 million koku (383 million bushels) which is nearly 16 million koku more than last year's bad harvest, 10 million koku greater than an average harvest, and 6 million koku higher than the previous record attained in 1933. There was a marked increase in yields in most areas and weather conditions were exceptionally favourable. Damage by typhoons was very small.

In the political sphere the good harvest is expected to help in prolonging the life of the Hatoyama government; in the economic field it should lead to the end of rationing and an improved standard of living. The compulsory collection of rice has been abolished and new arrangements introduced whereby each farmer sells voluntarily to the government in accordance with advance commitments. The rice ration has already been increased and restaurants are being allowed to serve rice without taking ration tickets.

Many people are advocating the abandonment next year of all official controls over collection and distribution and the substitution of a price support system. With this aim in mind the government has increased rice imports, in spite of the good crop, in order to build up a stockpile.

Rising internal demand

In the coming months, therefore, farmers should be much better off than they were last year and rural consumption may be expected to rise. Among the townspeople this year's increased prosperity is already making itself felt. September sales of department stores in Tokyo reached 4,769 million yen (\$13.2 million), an increase of over 9 per cent compared with August, and over 700 million yen higher than in September 1954. Clothing sales were over one third higher in value than last year, and the turnover of stores' restaurants was up by 64 per cent. By category sales were as follows:

	Million Yen	Increase over September 1954 per cent
Clothing	2,141	38
Miscellaneous goods	908	24
Household goods	448	28
Food	741	33
Others	40	-20
Sales of branch stores	316	2
Restaurants	130	64
Services	45	12
TOTAL	4,769	27

But for a large proportion of the population the standard of living remains very low. Official estimates put the number of totally unemployed in June at 680,000 (against 560,000 in June 1954) which is only about 1.6 per cent of the labour force, but in addition to this there are probably some 1 to 2 million people who are under-employed. Their chances of getting full-time work in the near future are remote, and their numbers will rise as the population increases steadily at the rate of about a million a year. This is a major long term problem for which the Japanese Government has as yet been able to produce no satisfactory solution—even on paper.

(Continued from Page 358)

of H.K.\$43½ millions is estimated but this includes expenditure of H.K.\$30 millions for the Tai Lam Chung scheme and H.K.\$32 millions for the air-port. Both these items are public works of a capital nature which are essential to the future of the Colony and for this reason the size of the deficit should not give cause for alarm.

At the conclusion of his address Mr. Clarke took stock of the Colony's financial position ten years after the re-establishment of civil government. This showed that, in spite of the heavy programme of rehabilitation, the cost of housing the large number of refugees and general post-war development, Hongkong has built up a reserve of a year's revenue with a public debt of less than two months' income. When it is remembered that the Colony started with no surplus funds after the war this happy state of affairs I think reflects great credit on Mr. Clarke and his predecessor as well as on the industrious people of Hongkong whose energy and adaptability have made it possible.

JAPAN

Japan's population is likely to pass the ninety million mark during 1956 and any analysis of economic and political developments in the country cannot ignore the steadily increasing pressure which a rising population makes on available resources. Economically 1955 was a good year and the visible adverse trade balance was reduced by U.S.\$300 millions while foreign exchange receipts, which include invisibles, exceeded payments by nearly U.S.\$500 millions. This improvement has been achieved in the face of a gradual but nevertheless steady decrease in the foreign currency obtained from the U.S. Forces. The deflationary policy which we mentioned last year continued during 1955 and commercial banks' borrowings from the Bank of Japan reached the lowest level since 1946; but, helped by a lively export demand, no serious restriction in business activity was apparent although unemployment figures gave cause for concern. Good crops of rice and cereals contributed to the improved balance of payments position. The draft budget, which is at present before the Budget Committee in the Diet, shows little change from last year and although the note issue rose by 8% this is considered to be a reasonable reflection of the general expansion in production, including the bumper rice crop. The Anglo-Japanese Sterling Payments Agreement of January 1954 was extended until 30th September 1956 with Japan agreeing to remove certain restrictions on imports from the sterling area. This agreement will be reviewed again this year. During the year Japan became a full member of GATT but her satisfaction was tempered by the fact that a number of nations invoked Article 35 against her.

Three agreements have been made with the United States Government covering the sale to Japan of agricultural produce against payment in Yen while part of the Yen proceeds is available as a long term loan for capital development. Considerable assistance is also being given by the United States Government in providing technical training and the International Bank for Reconstruction and Development has recently agreed to grant a loan of U.S.\$8 millions for the modernization of heavy industry. All these arrangements should greatly benefit Japan's productive resources.

Unfortunately labour relations have not been too happy and there are ominous signs of further troubles on a nationwide scale. All our Japan offices were involved in a strike which lasted for seven weeks but in spite of the difficulties encountered I am glad to say that we managed for the most part to meet the requirements of our constituents.

As a result of the merger of the two wings of the Socialist party on the one hand and the Liberal and the

Democrats on the other a two party system has been created. Provided each party can continue to maintain a reasonable degree of unity this development should strengthen the parliamentary system. Between the two parties themselves considerable differences exist over both foreign policy and defence. Mr. Hatoyama, the Prime Minister, in December made it clear that his government—composed of the Liberal Democratic party—intend to revise the Constitution, reform the administration and revise the system of taxation. This programme is generally regarded as designed to enable Japan to rebuild her armed forces. Mr. Shigemitsu, the Foreign Minister, at the same time gave a review of foreign policy but was unable to report much progress in the Japanese-Soviet negotiations taking place in London which had foundered on the two issues of repatriation of Japanese prisoners and the settlement of territorial questions. He promised to strive for a speedy solution of the outstanding reparations agreements and to promote "a positive expansion of our trade with all countries." The Socialists on the other hand are opposed to rebuilding the armed forces and to the government's policy with regard to China.

On the whole Japan has recently made much progress but the rising population makes a continuing expansion of the export trade essential which is likely in the long run to influence political decisions.

INDONESIA

The political situation in Indonesia is extremely complex and it is often difficult for foreign merchants and bankers, occupied as they are with their day-to-day tasks, to follow the trend of events. The rivalry of political and military leaders has been a deciding factor in the composition and policies of recent governments and the elections have on that account been repeatedly postponed. It is therefore a matter of considerable importance that these elections were finally held towards the end of the year and that polling day passed off without major incident. Provisional results show that no one of the four major parties obtained sufficient seats to form a government on its own and some form of coalition seems probable. The government, which has been in office since August, under the leadership of Mr. Burhanuddin Harahap, appears to have tackled the many problems which faced it with vigour and, aided by the rise in the price of rubber, it has greatly improved the economic position of the country. We have more than once quoted from the Bank Indonesia Report, as this always gives an objective view of conditions in the country, and in the Report for 1954/5 published last year the Governor gave warning of the dangers of the continuing increase in the supply of money and went on to show the necessity of weakening the effect of inflation "which should primarily be brought about by reducing the cash deficit of the government". The need for such action is made apparent from a study of the current advance to the government by the Bank Indonesia. This rose from Rupiahs 1433 millions at the end of 1953 to Rupiahs 4477 millions at the end of 1954 and Rupiahs 5959 millions in June 1955. During the second half of the year a generally tighter money policy was adopted and an overhaul of the systems of import and export control was carried out. These measures have resulted in a drop in the advance to the government to Rupiahs 4074 millions at the end of 1955. Gold and foreign exchange reserves have increased and the estimate for the 1956 budget shows a deficit of Rupiahs 1,000 millions—a considerable reduction. The improvement in the free market rates for gold and foreign currencies shows that there is increased confidence in the economy.

Relations with Holland have unfortunately deteriorated in recent years and discussions over a number of outstanding matters were held recently at Geneva. Although at one

time there seemed to be hope of some form of agreement being reached the conference ended in failure and Indonesia subsequently abrogated the Netherlands Indonesian Union and the financial and economic agreements entered into in 1949.

THE PHILIPPINES

Our Office in Manila was opened on 11th November 1875 and the eightieth anniversary was duly celebrated at a reception of friends of many nationalities.

During 1955 President Magsaysay considerably strengthened his position by his sweeping victories in the Senate and the local elections and he continued his drive to improve conditions for "the common man". Unfortunately, however, all has not been well on the economic front and the administrative difficulties I mentioned last year still hold up progress. Foreign currency reserves declined from a figure of U.S.\$273 millions to U.S.\$213 millions. Although the prices of copra and some other exports tended to be lower, the main cause of this drop in reserves was the increase in imports—chiefly capital goods and raw materials—which has so far only been slightly counterbalanced by restrictions on the import of less essential goods.

The revision of the Bell Trade Act was approved by both the Philippine and United States Congresses. This comprehensive treaty will materially and increasingly affect trading relations between the two countries. From the beginning of this year free trade has ended and customs duties will be applied by each country on imports from the other on a gradually increasing scale, but whereas the Philippine duty on United States goods starts at 25% of the standard rate, the U.S. duty on Philippine goods will initially be only at 5%. The Philippine Government has been given power to change the value of the Peso without reference to the United States Government, and has also undertaken to abolish the exchange tax on remittances but this tax has been replaced by a special import tax which will be gradually reduced. Alterations have been made in the rate of which import quotas will be applied by the United States, and each country is permitted reasonable quantitative import restrictions to protect domestic industries. The immediate effect on Philippine exports is likely to be small but on a long term view it will be necessary to explore ways and means of reducing production costs if the traditional markets in the United States are to be retained.

On the whole this is a favourable agreement to the Philippines as their market in the U.S.A. for their exports is still available on advantageous terms and the revenue from customs duties is likely to increase. On the other hand there is the danger that there will be a rise in the cost of living which will make a reduction in export prices more difficult. Meanwhile it is encouraging to learn that the President has instructed the Monetary Board of the Central Bank to tighten up import controls to prevent a further drop in the foreign currency reserves.

THAILAND

Reports from Bangkok indicate that there has been a considerable improvement in both the political and economic fields since my statement was issued last year. For this a great deal of the credit is due to the Prime Minister, Field Marshal Pibul Songgram who, on his return from a successful overseas tour, introduced measures aimed at stamping out corruption in the administration and permitting freedom of speech both at public meetings and in the press. It is too early to judge how permanent these reforms will be, as personalities play a large part in politics in Thailand, and already there are signs of restriction in public discussion, but the immediate outlook is encouraging. So also is

the economic position, as exports were well maintained and in particular the tonnage of rice exported was greater than in 1954 although prices were lower. During the year all the regulations which necessitated surrender of part of the foreign exchange proceeds of exports at the official rate were withdrawn but rates of duty were raised to compensate. Import licence requirements were abolished in September for the majority of goods and customs duties were raised at the same time which should have a beneficial effect on the revenue.

Exchange rates during the first half of the year showed wide fluctuations but in July a Stabilization Fund was set up which is operated by the Bank of Thailand. This Fund seems to have been successfully managed and since its formation the market has been much more stable. Ordinary expenditure in the budget was balanced by revenue but appropriations for improving transport and irrigation resulted in an overall deficit which will be financed by loans and from treasury balances.

The above are a few of the many developments that have taken place in Thailand in 1955, and while last year I opened this paragraph with a reference to "cautious pessimism" I think it would be reasonable to close it this year with the words "cautious optimism".

VIETNAM

The partition of Indochina left behind many political and economic problems to be solved by the State of Vietnam. Amongst these was the settlement of the many refugees who poured in from the north, and the challenge to the authority of the government by several warring factions, each with control over private armies. Economically there was the task of rehabilitation after the ravages of war and the building up of a viable economy—deprived as the state is of the industries and rich coal fields of the north. In these circumstances progress must inevitably be slow but a great deal has already been achieved with the help of substantial aid from the United States of America and the government has considerably strengthened its internal position by successful military action. At a plebiscite in October Mr. Ngo Dinh Diem was elected Head of State, in place of Emperor Bao Dai, and he has been recognised as such by the French and other governments. The loosening of the ties with France has resulted in a gradual switch of trade from the Franc area and the economic and financial agreement with France was allowed to lapse at the end of 1955. Elections have recently been held to a Constituent Assembly for the purpose of considering the new Constitution but the problem of the joint elections with the north, which were part of the Geneva agreement to decide the future government of the whole country, remains.

CAMBODIA

Our Office in Phnom-penh got off to a satisfactory start and will I think prove to have been worthwhile. The port itself is, however, far from satisfactory due to the shallowness of the river but the scheme for the deep water port of Kompong Som is being pushed forward. Prince Sihanouk, the Prime Minister, had a sweeping success in the elections in September and the political situation appears stable.

MALAYA

Singapore is our largest office in the East after Hong-kong and in the Federation of Malaya we have a greater number of offices than in any other territory. The recent constitutional developments are therefore of great interest to the Bank and although it is always difficult to assess the importance of contemporary events, until the passing of time enables a more detached view to be taken, it appears

probable that 1955 will be considered a most significant year. Elections were held in both territories and a great part of the responsibility for the day-to-day government passed to the ministers whose parties held majorities in the newly elected legislatures. As the months moved on however, it became clear that the desire for a more rapid transfer to these ministers of such powers as had been reserved was becoming more insistent and that to a considerable extent this desire would be satisfied. Shareholders have no doubt been following the course of events in these territories, as this has had a great deal of publicity in the British press, and they will therefore be aware of the way matters have developed. I sincerely hope so as it is not possible here to do more than touch on one or two of the more important items.

Arrangements were made during the summer for delegations from both territories to visit London during 1956 to discuss future political developments and the visit of Tengku Abdul Rahman and his ministers took place in January. At this meeting it was decided that every effort would be made for the Federation to have full self-government and independence within the Commonwealth by August 1957 and a Constitutional Commission would be appointed immediately to draw up a constitution. Britain would continue until that date to be responsible for foreign affairs and external defence but there would be changes in the administration of internal defence arrangements and the Chief Minister has recently taken over the portfolio of Internal Defence and Security. Responsibility for all financial matters, at present discharged by the Financial Secretary, would be transferred at once to an elected minister and Colonel H. S. Lee has taken over this portfolio. The Federation recognised "the important part which overseas capital must continue to play in the economic and social development of Malaya" and that "membership of the Sterling Area was to the common advantage of the Federation and the other members". The talks with the Singapore Government will take place in April but Mr. Marshall, the Chief Minister, with two of his colleagues, visited the United Kingdom in December when the agenda was agreed.

The discussions in London set the course for constitutional developments in these countries and I should like to wish them every success in the days that lie ahead; and to hope that their approach to the many difficult problems, both political and economic, with which they are likely to be faced will be of advantage to them both and to the Commonwealth as a whole. One of the most important of these problems will be the relationship between the two territories, as a measure of agreement on many matters of policy will be to their mutual benefit.

Economically, both have had a good year due to the rise in the prices of rubber and tin. The price of rubber was fairly steady during the first half of the year but there was a considerable rise during August and September and the average for the year increased by over one shilling per pound. Exports from Malaya were 994,000 tons compared with 915,000 tons the year before. The challenge by the synthetic industry, however, is always present and it is encouraging that a scheme to foster replanting, both for estates and smallholders, was finally put into operation. This scheme has been drawn up after consideration of the recommendations of the Mudie Report and the Rubber Producers' Council and is in the nature of a compromise aimed at assisting replanting where it is most needed.

The price of tin rose slowly during the major part of the year but there was a jump in December due to a shortage of stocks for spot delivery. Indonesia's recent decision to ratify the International Tin Agreement will enable the International Tin Council to be inaugurated but the building up of the buffer pool may take some time so long as prices

remain at present levels. Tin production in Malaya was a post-war record while exports were 71,150 tons compared with 70,333 tons in 1954. Production of iron ore has been increasing in recent years and the total for 1955 was 1,466,184 tons as compared with 1,212,780 tons in 1954.

The Malayan trade figures show a favourable balance of M.\$335 millions with imports at M.\$3,821 millions and exports at M.\$4,156 millions.

The budgets of both territories showed few changes in taxation but this was mainly due to the fact that the Federation Government, having been in office for only a few months, decided to introduce a "standstill" budget for the time being and Singapore decided not to act on their own. From a study of the speeches however it would seem that some increases cannot be long delayed. Due to the rise in the price of rubber the Federation expected to turn an estimated deficit of M.\$148 millions into a surplus of M.\$42 millions. For the forthcoming year estimated expenditure shows an increase of M.\$86 millions, including a grant of M.\$23 millions to the rubber industry for replanting, leaving a deficit of M.\$50 millions. Singapore estimated a surplus of M.\$2 millions for 1955 with a deficit of M.\$15 millions for 1956.

The report of the International Bank Mission, which visited Malaya early in 1954, was published in September 1955 and gave a comprehensive survey of economic conditions in the Federation and Singapore and made numerous recommendations for increasing the territories' productive resources. This useful report is, I understand, being studied by the two governments and no doubt action on some of its recommendations will be taken shortly.

Although considerable successes have been achieved in the eight year old war against the terrorists, incidents continue to occur at frequent intervals and the terrorist organisation is still a very active force. In the hope of hastening the end of the fighting the Federation Government declared an amnesty in September offering freedom from prosecution to those who surrendered, but the response to this offer was disappointing. Arrangements were, however, made for a meeting between the two Chief Ministers and the Communist leader, Chin Peng, which was held at the end of December. This meeting proved a failure and the amnesty terms were withdrawn on the 8th February and in broadcasts to the people of Malaya, Tengku Abdul Rahman has made it clear that action will continue against the terrorists until they surrender. Disappointing as it is that no tangible results have been achieved as a result of the amnesty, it has been clearly shown that the intention of the terrorists is to overthrow the elected government of the Federation and this has strengthened the government's hand. Tengku Abdul Rahman has been resolute in his approach to this problem and Mr. Marshall showed considerable political courage in his successful effort to place certain of the emergency regulations on the statute book.

I should like to pay tribute to the Commonwealth Forces who have served in Malaya since the Emergency began. To their courage and devotion to duty the progress so far made is due. Never knowing where or when the enemy would strike their task has not been an enviable one and many have lost their lives.

In Singapore there have been considerable labour disputes and unrest resulting in a wave of strikes which has had a disturbing effect on the economy. According to statistics issued by the Labour Department nearly 950,000 man days were lost during the year. The danger of labour disputes to a free port, dependent to such a large extent on its entrepot trade, is so evident that the finding of an early solution to this problem would appear to be one of the most urgent questions which faces the Singapore Government.

Before I leave Malaya I would like to mention the new air-port at Paya Lebar in Singapore which was opened by Mr. Lennox-Boyd in August. This is one of the largest in Singapore which was opened by Mr. Lennox-Boyd in August. This is one of the largest in the East and will maintain Singapore's position as an important junction on the international air routes.

NORTH BORNEO

In North Borneo also the increased price for rubber resulted in a marked improvement in the trade figures and revenue. Whereas in 1954 imports and exports were almost in balance at around M.\$75 millions, in 1955 exports increased to M.\$105 millions with imports at M.\$87 millions. Revenue exceeded the estimate by M.\$3 millions. In his address in the budget debate the Governor, whom we congratulate on the well-deserved honour conferred on him at the New Year, informed the Legislative Council that he proposed to widen the composition of that body by nominating eight unofficial members from a panel recommended by certain recognised public bodies and organisations. While this step "involves no amendment of the Constitution of the Colony", it should result in a more representative expression of opinion being heard in the Council. The labour situation, to which reference has been made on many occasions in these annual reviews, remains difficult, but I am glad to see that the Agreement with the Government of The Philippine Republic, which I mentioned last year, was signed in August, although no immediate results can yet be reported.

The formation of the North Borneo Credit Corporation with an advance from the government of M.\$1 million to provide loans for development and building should give stimulus to new projects, but the need for technicians at all levels, to which I referred above, applies with particular force in Borneo and is a long term problem with no easy solution.

The facilities at Labuan air-port are proving to be inadequate by international standards and considerable work on reconstruction has been put in hand. It was subsequently found that the proposed improvements would not be sufficient to accommodate the larger types of modern aircraft and an expert from the Ministry of Transport and Civil Aviation has recently visited the air-port to advise the government on what is required. The question of the restoration to Labuan of its pre-war status as a free port has been in the news again and the Governor has promised to re-examine it.

Once again I have to record a most satisfactory budgetary position in Brunei State where the estimated revenue exceeds expenditure by M.\$71 millions.

INDIA

India has made no secret of the fact that she is moving towards "a socialistic pattern of society" and this goal has been generally accepted by the public. Until recently the movement in this direction has been gradual under the first five year plan, but the pace is likely to be increased with the introduction of the second five year plan, a much more ambitious programme. Evidence of this can already be seen in the revision of Article 31 of the Constitution, to which reference was made last year, the Companies Act 1956, with its restriction on the activities of Managing Agents, and the recent decision to nationalise life insurance. Foreign merchants are not alone in their fears of the cumulative effect on the private sector that the increasing power of the state will have.

The first five year plan with its emphasis on rural planning and communications, with the consolidation of existing rather than the construction of new industries, did not impose a great strain on the economy. Helped by three favourable monsoons agricultural production increased satisfactori-

ly and the economy has been able to take in its stride the budgetary deficits while prices have remained stable. While final details of the second five year plan are not yet available, considerable emphasis is being laid on the expansion of heavy industry, and the total outlay in the public sector is expected to be in the nature of £3,600 millions nearly double the figure for the first plan. A considerable part of the finance will be obtained again by deficit budgeting, even though a rise in taxation is expected. Whether the targets for this immense undertaking are likely to be achieved is a question on which I, from this distance, do not feel qualified to express opinion. The President of the Associated Chambers of Commerce in India, however, in his annual address in Calcutta in December, after some very cogent remarks on the necessity of the fullest co-operation between the public and the private sectors and the danger of unhealthy competition between the two sectors, suggested that they were attainable provided "the necessary transport—particularly the rail transport—is made available" India so far has made considerable progress—much greater than I think was expected—and at this stage we can look forward with some confidence.

The report of the States Reorganisation Commission was published in October and many of the recommendations proved generally acceptable. The proposal made regarding Bombay, however, raised considerable objections and the announcement of the decision of the government to administer Bombay from the Centre had unhappy results. Further difficulties may be encountered before a final settlement is reached.

The role of foreign capital in present-day India is difficult to forecast. A survey published recently by the Reserve Bank of India showed that nearly 83% of all foreign investments in India at the end of 1953 came from the United Kingdom, and during the period 1948-53 the percentage of the United Kingdom's share of new business investment was not much less. These figures show to what extent British capital is involved. While speeches of individual ministers promise fair treatment to foreign capital they have recently made it clear that India is not likely to change her internal policies to attract foreign investment. It seems probable that in the future the role of foreign private investment in India will be smaller than in the past and that the emphasis on foreign investment as a whole is more likely to be on a government to government basis. The large sums required are probably beyond the means of all but the largest concerns but there is, I am sure, a marginal role in which private capital can play its part if given its chance.

The introduction of a decimal coinage is promised on 1st April 1957 with the rupee being divided into one hundred naya paisa. This will result in the disappearance of the anna. Another break with the past was the nationalisation of the Imperial Bank of India. This bank was formed in 1921 as the result of the amalgamation of the three Presidency Banks and before the setting up of the Reserve Bank of India it acted as the government banker.

Space precludes mention of a number of other important developments in India but I should like to touch briefly on the visit of the Russian leaders, Marshal Bulganin and Mr. Khrushchev, with their attacks made, in both India and Burma, on the West and the United Kingdom in particular. There seems no doubt that this visit was a considerable personal success for the Russians but their comments on the United Kingdom must have been embarrassing to their hosts. On the economic side this visit may very likely result in increased trade between Russia and India, with greater competition for British firms, but the effect of such biased speeches on informed opinion in India should not, I think, be overrated and it may be that the Russians overplayed their hand.

THE HONGKONG AND SHANGHAI BANKING CORPORATION

(The liability of members is limited to the extent of their liability to the company)
BALANCE SHEET

1954 Hongkong Dollars		Hongkong Dollars	Sterling Equivalents
	SHARE CAPITAL		
	Authorised and Issued		
\$ 20,000,000	200,000 Shares of HK\$125 each, fully paid	\$ 25,000,000	£ 1,562,500
	RESERVE LIABILITY OF MEMBERS		
	HK\$125 per share on 200,000 Shares	\$ 25,000,000	
128,000,000	RESERVE FUND	128,000,000	8,000,000
10,215,256	PROFIT AND LOSS ACCOUNT	10,606,689	662,912
158,215,256		163,606,689	10,225,412
	HONGKONG CURRENCY NOTES IN CIRCULATION		
30,000,000	Authorised Note Issue	\$ 30,000,000	
645,742,000	Excess Note Issue	645,742,000	42,233,875
	CURRENT, DEPOSIT AND OTHER ACCOUNTS,		
	including Reserves and Provisions for Contingencies		
2,672,640,569	and Taxation	2,557,375,793	
315,043	AMOUNTS DUE TO SUBSIDIARY COMPANIES	397,962	
56,521,108	ACCEPTANCES ON BEHALF OF CUSTOMERS	20,355,912	
7,760,842	PROPOSED FINAL DIVIDEND in respect of the year		
	31st December, 1955	9,721,519	161,740,689
	Notes:		
	1. Confirmed Credits, Guarantees and Endorsements		
	amount to HK\$611,475,070 (\$577,859,274), in		
	addition to which there are commitments in re-		
	spect of outstanding Forward Exchange Contracts.		
	2. Foreign Currency Balances have been converted		
	into Hongkong Dollars at approximately the rates		
	ruling at 31st December, 1955. The Sterling		
	equivalents of the figures shown in the above		
	Balance Sheet have been converted at the rate		
	of HK\$1 = 1/3d.		
\$3,571,194,818		\$3,427,199,875	£214,199,999

MICHAEL W. TURNER
Chief Manager.J. A. H. SAUNDERS
Chief Accountant.

PROFIT AND LOSS ACCOUNT

1954 Hongkong Dollars		Hongkong Dollars	
\$ 5,173,895	Interim Dividend of £2 per Share, paid 8th August, 1955, £400,000 @ 1/2-27/32		\$ 6,467,360
	Appropriations recommended by the Directors:		
6,000,000	Amount to be written off Bank Premises	\$4,000,000	
7,760,842	Final Dividend of £3 per Share, £600,000 @ 1/2-13/16	9,721,519	13,721,519
10,215,256	Balance carried forward to next year		10,606,689
\$ 29,149,993			\$30,795,568

Special Administrative Expenses, including Chief Manager's emoluments,
Directors' Fees and London Committee Fees amounted to HK\$1,045,918
(HK\$889,569).

I BANKING CORPORATION

as prescribed in Chapter 70 of the Laws of Hongkong)
DECEMBER, 1955

1954 Hongkong Dollars		Hongkong Dollars	Sterling Equivalent
\$ 330,985,725	CASH IN HAND AND IN TRANSIT AND BALANCES WITH OTHER BANKS	\$ 260,260,417	£ 16,266,276
576,659,313	MONEY AT CALL AND SHORT NOTICE	189,788,034	11,861,752
	BILLS RECEIVABLE		
208,216,130	British and Other Government Treasury Bills	227,066,484	14,191,655
494,655,277	Trade Bills	560,740,284	35,046,268
	HONGKONG GOVERNMENT CERTIFICATES OF INDEBTEDNESS issued in respect of funds deposited as security for the Excess Note Issue		
645,883,047		645,883,047	40,367,690
	INVESTMENTS, at under market values:		
	British, Colonial and Other Government Securities (including \$37,703,900 (\$43,378,400) deposited as security for the Authorised Note Issue):		
279,964,012	Quoted in Great Britain	281,850,080	17,615,630
96,347,487	Quoted outside Great Britain	99,796,379	6,237,274
	Other Investments:		
15,702,816	Quoted in Great Britain	19,722,968	1,232,685
14,745,993	Quoted outside Great Britain	13,977,628	873,602
829,455,105	ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS, less provision for Bad and Doubtful Debts	1,069,660,411	66,853,776
—	AMOUNTS DUE BY SUBSIDIARY COMPANIES	10,146,901	634,181
56,521,108	LIABILITIES OF CUSTOMERS FOR ACCEPTANCES, per contra	20,355,912	1,272,245
3,549,136,013		3,399,248,545	212,453,034
	FIXED ASSETS		
	Investments in Subsidiary Companies, at cost:		
	The Hongkong and Shanghai Banking Corporation of California	\$ 7,125,000	
2,135,843	Trustee and Nominee Companies	2,139,179	
		9,264,179	
19,922,962	Bank Premises at cost, less amounts written off	18,687,151	1,746,958
<u>\$3,571,194,818</u>		<u>\$3,427,199,875</u>	<u>£214,199,992</u>

C. BLAKER
H. D. BENHAM
J. A. BLACKWOOD } Directors.

REVENUE ENDED 31st DECEMBER, 1955

1954 Hongkong Dollars		Hongkong Dollars
\$ 9,859,542	Balance brought forward from 31st. December, 1954	\$10,215,256
	Profit for the year, after providing for taxation on profits earned to date and after making transfers to the credit of Reserves for Contingencies, out of which Reserves provision has been made for any diminution in value of current assets	20,580,320
19,290,451		
<u>\$ 29,149,993</u>		<u>\$30,795,576</u>

BURMA

From India we now turn to Burma whose connection with her large neighbour has always been very close. Both countries have adopted a policy of neutrality and the Prime Minister, U Nu, paid a number of visits to countries on both sides of the Iron Curtain. Burma too is endeavouring to raise the standards of living of the country by means of a planned development scheme; but unfortunately the fears I expressed last year, that she might be trying to do too much too quickly, have only been too well founded as the difficulty experienced in disposing of her rice has resulted in a steady fall in the foreign currency reserves.

In March a severe cut was made in the import programme which had the inevitable effect of reducing customs revenue and making the balancing of the budget more difficult. As a result it was found necessary to prune rigorously the estimates for capital expenditure. A loan has been promised by India and other forms of aid are being sought. Barter deals have been arranged with several countries and while these should result in the disposal of a part of the export surplus there remains the danger, inherent in such transactions, that Burma may have difficulty in obtaining the goods she requires. Yet in view of the prevailing buyers' market for rice it is understandable that such transactions should be found attractive to Burma. Meanwhile efforts are being made to improve the quality of the paddy, and production of other agricultural commodities such as vegetable oils, cotton and jute is being increased, which it is hoped will result in a saving of foreign exchange. Fears are expressed that the increase in the number of barter deals, coupled with the Reparations Agreement between Burma and Japan, may have a serious effect on Commonwealth trade. It is, however, encouraging that a Hongkong firm last year obtained a contract for the construction of barges against strong foreign competition.

Burma also had a visit from the Russian leaders which was followed shortly after by the visit of Sir Hubert Rance—the last Governor of Burma—accompanied by Lady Rance. The spontaneous welcome Sir Hubert and Lady Rance received during their stay was evidence that old friendships had not been forgotten.

CEYLON

The improvement in Ceylon's balance of payments, which took place in 1954, continued with increasing momentum in 1955 and resulted in a trade surplus of Rs.479 millions against Rs.412 millions for 1954.

Tea prices, which at the beginning of the year were Rs.3.29 per pound, fell considerably in the early months, reaching a monthly average of Rs.1.34 for May, but rallied to Rs.2.15 by December. The average for the year was Rs.2.24 against Rs.2.56 for 1954.

The increase in the price of rubber not only benefited the general balance of payments, but enabled a higher return to be obtained from 1st June for the rubber shipped to China, which was originally arranged as a barter deal against rice. Due to the drop in Ceylon's purchases of Chinese rice, China's debt to Ceylon under this arrangement is considerable and so far no decision seems to have been taken as to the method by which this will be settled.

Ceylon, like many other countries, has drawn up a new development programme, for a period of six years, but this only covers government expenditure and "does not constitute an overall plan for the economy as a whole". The programme provides for an expenditure of Rs.2,500 millions over the period with the main emphasis on agriculture and public utilities. The targets set out are comparatively modest and it is hoped to be able to finance them out of the annual budget, but the authors of the plan appreciate that the prosperity of the country is dependent to such a large

extent on the prices obtained from tea, rubber and copra that they have allowed for an adjustment in the targets if it is found that a continuing deficit in the budget shows that they were too high.

Legislation was passed during the year for the formation of the Development Finance Corporation of Ceylon to assist private industrial and agricultural enterprises and "to encourage and promote the participation of private capital, both internal and external, in such enterprises".

Last month parliament was dissolved and elections will be held in April. The United National Party, who form the present government, wish to obtain a mandate from the people to replace English by Sinhalese as the official language of Ceylon.

SAN FRANCISCO

On the 15th August a subsidiary of the Bank, The Hongkong and Shanghai Banking Corporation of California, was opened in San Francisco. The Bank, since its foundation in 1865, has had a very long connection with San Francisco as, in that year, we appointed the Bank of California as our Agent. Ten years later in November 1875 our own office was opened. From that time this office has contributed greatly to the business of our Far Eastern offices with the West Coast of America but it has not been permitted to carry on domestic banking in the State of California. The new subsidiary, however, is able to offer a full range of domestic banking services maintaining current and savings accounts, receiving money on deposit and granting approved loans, as well as providing the facilities for financing foreign trade which has been our main function in the past.

In January of this year a move was made into handsome new premises which have a modern layout and are quite up to the standard of our main offices elsewhere. I am told that they compare favourably with other banks in San Francisco and the move will give greater scope for the extension of business which we hope to see.

* * * *

Once again I come to the end of our annual survey of the Eastern scene in which I have tried to give a brief review of political and economic conditions and to pick out a few of the more important events of the year. Shareholders will, I think, agree that this has been a satisfactory year: political differences have not been too acute and economic development has made progress. The countries in Asia are moving along paths of their own choosing and foreign merchants and bankers must adapt themselves to these changing conditions. This we are trying to do: as indeed we should, as indeed we must. But what of new foreign investment? That is another question altogether. Many other avenues are open and the most attractive will be chosen. Much lip service is paid by certain countries to the desire to attract foreign capital but stable conditions and prospects of an adequate reward will do much more than any number of exhortations. This is a question each country must decide for itself and the response will surely depend on the decisions made.

In conclusion I feel I cannot do better than quote an extract from a speech made at a Conference on Financing the Economic Development of Underdeveloped Countries organised by the United Nations Association in London recently. "If . . . the underdeveloped areas generally, are to attract private capital, they have to create conditions in which it appears to people who are trustees for other people's money that this is the best investment in the world which is open to them at the moment. This means to say that conditions have to be such that the risk of loss of income or loss of capital is at a minimum, and secondly, that the yield is likely to be sufficient to offset any such danger as remains."

ANNUAL GENERAL MEETING OF THE HONGKONG AND SHANGHAI BANKING CORPORATION

The Hon. Cedric Blaker, Chairman of the Board of Directors, made the following speech when submitting his statement at the annual general meeting of the Bank held on March 16, 1956.

The profit for the year amounted to \$20,580,320 which is some \$14 millions higher than the corresponding figure for the previous year. In accordance with our usual practice, this profit has been arrived at after making transfers to our inner reserves out of which reserves full provision has been made for the diminution in the market value of our investments and for all known doubtful debts and contingencies.

It is proposed that this year a sum of \$4 millions should be written off Bank Premises and, after allowing for this transfer and the Interim Dividend of £2 per share, the Directors recommend the payment of a Final Dividend of £3 per share, leaving a balance of just over \$10½ millions to be carried forward to next year.

Although the proposed dividend for the year remains unchanged at £5 per share, it is of course payable on the Capital as increased by last year's bonus issue and is equivalent to £6.5/- per share on the old Capital.

Turning to the Balance Sheet, it will be observed that the Reserve Fund remains unchanged at \$128 millions, your Directors having transferred from inner reserves an amount of \$5 millions to replace the amount of the Reserve Fund which was capitalised during the year.

Hongkong Currency Notes in Circulation remain unchanged, but Current, Deposit and Other Accounts have decreased by just over \$115 millions. The trend of our ordinary deposits has in fact been upwards, but the withdrawal of certain substantial sums, which had been left with us on a short term basis, resulted in this overall reduction.

Acceptances on behalf of Customers show a decline of some \$36 millions which may be attributed to an alteration in the methods of financing adopted by certain large customers during the year.

Your Directors have this year decided to state the extent of the Bank's liability in respect of Confirmed Credits, Guarantees and Endorsements by way of a note on the Balance Sheet and you will observe that this total amounts to some \$611 millions. It will, of course, be understood that the Bank has recourse for a like amount on its customers.

The assets side of the Balance Sheet discloses some fairly substantial alterations as compared with last year's figures. Advances and Trade Bills have increased by \$240 millions and \$66 millions respectively. These increases are mainly due to the higher prices which have ruled throughout the year for certain of the primary commodities produced in the areas in which we are interested, but they also reflect the growing demand for larger advances from bankers to finance current and capital commitments arising from the growing industrial development in South East Asia.

Investments show an increase of some \$9 millions being cost of additional investments acquired. Investments in and Amounts due by Subsidiary Companies are higher by \$17 millions which represents our interests in The Hongkong and Shanghai Banking Corporation of California.

As a result of the increases in Advances, Trade Bills and the other items referred to above and to the net decrease in our Deposits, the total of Cash, Call Money, and Treasury Bills has fallen by some \$439 millions. Although this has resulted in a drop in the ratio of the Bank's liquid assets to its total liabilities, this ratio still amounts to over 47%, which your Directors consider may be regarded as a satisfactory degree of liquidity.

Shareholders will be aware that the continued expansion of world trade and the rise in the price of certain primary commodities, noticeably rubber and tin, contributed to more prosperous trading conditions generally in the territories in which we operate. On the whole, your Directors are very satisfied with the results of the year.

The printed statement which is in your hands deals with the political and economic situation in the Eastern countries where we have offices. This follows the pattern of previous years but shareholders will notice that considerably less space has been devoted to China than has been the case in the past. This is unfortunately a reflection of the restriction of our activities in that country although I hope that circumstances will make it possible for us to continue to trade with China if no longer in China.

Hongkong on the whole had a prosperous year as, in spite of the drop in our traditional entrepot trade with China, business activity generally continued to expand. This has been very noticeable in our office here where the number of current and Savings Bank accounts has steadily increased. We have now reached the point where these two departments have grown larger than is desirable for administrative purposes or for giving as efficient a service to the public as we should like. Your Directors therefore decided to open a new office in King's Road—the North Point Agency—which started business on Monday. This new office will, we hope, lighten the load and we are considering other means of relieving pressure.

In the printed statement details are given of the opening of our new subsidiary in San Francisco. This subsidiary will be able to give a full range of domestic and foreign banking services and will, I hope, prove popular with our many old friends and will make many new ones. It has always been disappointing to us that the services we were permitted to offer in San Francisco were so limited and I am glad that this complaint can no longer be made.

Our Chief Manager, Mr. Michael Turner, continued the tour commenced in 1954 and visited our branches at Calcutta, Bombay, Colombo and Rangoon. He also spent some time in London and was able when he was there to see our offices in Hamburg and Paris. This completed his itinerary and he has now visited all our offices. In all but a few cases he was accompanied by Mrs. Turner. Shareholders will I think agree that the extensive tour which the speed of modern times enabled him to make—the first Chief Manager to do so—has been of considerable benefit to the Bank. This not only enabled Mr. Turner to make contact with government officials and our business friends in all these countries but to see for himself how each office was conducted and that the welfare of the staff was being looked after. Once again he was able to give a favourable report on the staff of all nationalities in the countries which he visited. I am glad to say that Mr. Turner, in spite of the very busy year which he had, was able to take a short holiday in the United Kingdom.

The sudden death of Mr. G. H. Stacey, who held the appointment of Deputy Chief Manager, was a severe loss to us all and the numerous letters we received from business associates of many nationalities gave evidence of the respect in which he was held.

I should like to take this opportunity of thanking all our staff, particularly the Branch Managers, for their loyalty and hard work during the year.

There were several changes in the Board of Directors during the year but as these are shown in the Report which is in your hands, I will make no further comment on them.

There were, however, various changes in London which I should like to mention. Mr. S. A. Gray, who has been Senior London Manager since 1948, resigned at the end of the year and was succeeded by Mr. S. W. P. Perry-Aldworth, who also took his place on the London Committee. Mr. W. J. Keswick resigned from the Committee on being appointed a director of the Bank of England on which we congratulate him although we are sorry to lose the benefit of his experience. The Keswick family has had a close connection with the Bank over several generations and I hope that it will not be long before we have another Keswick on the London Committee. Sir John Nicoll, who needs no introduction to this audience, joined the Committee towards the end of the year and I am sure his experience in Colonial affairs will be of great assistance to our London Management.

The Chairman then proposed that as from January 1, 1956, the remuneration of the directors should be at the

THE PHILIPPINES IN 1955

PART THREE

INTERNATIONAL PAYMENTS POSITION

A. International Reserve

The international reserve registered an almost persistent decline this year in contrast with marked fluctuations in 1954. Except for the slight ascent during the third quarter, there was an average monthly decrease of \$5.4 million or about 14 per cent for the whole year.

This downward movement of the reserve which started in September of last year continued up to May of this year when it brought the level down to \$239.88 million. A withdrawal of \$10 million from the International Monetary Fund was granted in June, 1955. The gains of \$3 million in July and \$2 million in August were made possible by the cuts made in non-essential goods. In September, however, the international reserve suffered another slash of \$4.1 million bringing the level down to only \$245.82 million. The downward swing continued till December 15 hitting a new low of \$218.00 million which was \$54.69 million or about 20 per cent lower than December 1954.

This heavy drain on the international reserve was caused primarily by the adoption of liberalized controls supported by an easy credit policy and heavy national development expenditures, bringing about a high level of aggregate import demand in the domestic economy.

Foreign exchange holdings of the Central Bank suffered a considerable reduction with the withdrawal of \$46.50 million from time deposits to meet payments for increased importation. A slight increase of \$0.09 million in accrued interest on time deposits partially offset this contraction. Other factors which helped counteract the decline were the increments in gold, \$5.25 million, demand deposits of \$0.70 million and foreign currency, \$0.07 million. Gross foreign exchange assets of commercial banks decreased by \$2.09 million while liabilities rose by \$4.04 million, bringing about a net decline of \$6.13 million in net foreign exchange holdings of other banks. Central Bank sales of foreign exchange to banks and other institutions amounting to \$566.06 million exceeded purchases of \$475.49 million.

Trade with Japan under the Philippines-Japan Trade Agreement resulted in a favorable balance of \$21.77 million with exports amounting to \$61.99 million as against imports of \$40.22 million. The Bank of Japan made a partial payment of \$26.93 million during the year which reduced the open account due from that country down to \$14.52 million as of December 15. The Philippines-Japan Trade Agreement which was to expire September 30, 1955 was extended further to January 31, 1956.

B. Foreign Exchange Receipts and Disbursements

Foreign exchange receipts and disbursements from January to November, 1955 resulted in a net disbursement

rate of £800 a year per director. He said that since 1932 the remuneration of the directors had been £5,000 divisible equally between them. "In view of the very substantial rise which has taken place in all forms of remuneration since that time, an increase would seem justified; and at the same time it is proposed to do away with the present system of voting a lump sum to be divided equally between the directors and to fix an annual fee to be payable to each."

Mr. H. Owen-Hughes seconded the proposal which was then carried.

of \$42.86 million as compared to a deficit of \$13.07 million for the same period in 1954. Although both receipts and payments for 1955 increased over those of 1954, the latter increased by \$45.67 million while the former increased only by \$15.88 million, resulting in an increase in net disbursements of \$29.79 million.

This unfavorable trend reflects the marked upturn of merchandise import payments by \$57.95 million, mainly due to an increase in the volume of letters of credit opened for machinery; mineral fuels, lubricants and related materials; base metals; and textile yarn, fabrics and made-up articles. This is made possible by the liberalized foreign exchange allocations for raw materials and capital goods.

Merchandise export receipts went down by \$5.40 million, caused by an estimated 9 per cent drop in export prices, particularly those of copra, sugar, coconut oil and desiccated coconut. Lack of shipping facilities specially critical in the months of February and March, 1955 also contributed to the downturn in export receipts.

Total U.S. government expenditures increased by \$2.77 million for the period under review. During the first three quarters of 1955, U.S. Veterans Administration expenditures accounted for 53 per cent of total U.S. government disbursements while military payments made up 43 per cent.

On the other hand, Philippine government expenditures for 1955 amounted to only \$7.09 million as against \$23.26 million in 1954, a decrease of \$16.17 million. The annual payment on the Romulo-Snyder loan amounting to \$3.6 million was suspended this year upon instructions of the National Treasurer. The relatively higher figure for 1954 was accounted for by the redemption of MRR bonds amounting to \$13.2 million.

Receipts from gold for 1955 are \$4.77 million, made possible by the subsidy given by the Central Bank to gold mining companies.

Miscellaneous invisible receipts rose by \$13.74 million or 37.3 per cent, which includes the \$10 million purchase of the Central Bank from the International Monetary Fund, and a \$1.2 million loan from the Bank of America. Miscellaneous invisible payments, however, went up by \$3.89 million reflecting an increase in freight, travel and donations and contributions.

INTERNATIONAL TRADE

A. Overall Trend

Actual figures for the first ten months of 1955 reflected a continuing upsurge in international trade when compared with the corresponding period, last year. The value of foreign trade during the period amounted to P1,545.5 million which exceeds the comparable 1954 figure by P77.7 million. This increase was entirely brought about by the rise in imports which were recorded at P878.2 million, or an increase of 11.5 per cent, as exports fell by 1.9 per cent to P667.3 million. During the period under review, exports paid for only 76.0 per cent of imports as against 86.4 per cent during the ten-month period in 1954.

Exports broke the rising trend evidenced during the past two years. Their movement however has been reversed. This year, increases in export volume did not sufficiently recoup losses owing to the slump in the world prices. The

physical volume of exports shipped topped the 1954 level by 9.3 per cent as the volume index climbed to an all-time peak. The good showing made by export volume enabled exporters to erase a substantial part of losses, arising out of disturbances which caused prices to dip 9.1 per cent below 1954 figures. As a result, the value of exports registered a drop of only P13.2 million.

FOREIGN TRADE OF THE PHILIPPINES

January-October 1954 & 1955

(F.O.B. value in million pesos)

Period	Imports		Exports	
	1955	1954	1955	1954
TOTAL	878.2	787.3	667.3	680.5
January	96.5	83.6	63.5	67.5
February	82.2	60.0	69.2	80.0
March	89.2	81.2	64.0	67.8
April	90.0	80.3	78.3	80.8
May	111.9	84.7	72.9	58.7
June	102.5	87.0	78.6	64.7
July	74.7	82.3	66.7	90.0
August	75.6	74.3	59.4	62.9
September	73.1	72.6	60.9	51.2
October	82.5	81.3	53.8	56.9

Merchandise imports appeared to be heading towards a steeper-than-usual increase as import curbs were relaxed. This increase was almost wholly the result of a greater quantity which during the period January-October, 1955, was set at 13.3 per cent over the previous year's comparable volume. Price decreases in imports were negligible, amounting only to 1.7 per cent below the year before. With export prices registering a bigger fall than those for imports, a unit of exports this year could purchase a correspondingly smaller quantity of imports. The net terms of trade of the Philippines with all countries (1948-1949=100) which averaged 88.0 during the first ten months of 1954 deteriorated to 81.4 in the current comparable period or a decrease of 7.5 per cent.

The trade picture being characterized by an upturn in imports and a downturn in exports, the deficit in the balance of trade rose substantially. The deficit of P210.9 million was 97.5 per cent over the deficit in 1954.

B. Trade Pattern

1. Exports: Of the ten principal export commodities appearing below, only canned pineapple fell in quantity exported. The volume of other exports especially coconut products, sugar, abaca and logs and lumber rose significantly. On the other hand, price declines in copra (13.9 per cent), sugar (7.9 per cent), coconut oil (12.4 per cent) and desiccated coconut (11.5 per cent) resulted in a considerably lower value of the above exports even as volume increased. Among the major items, logs and lumber experienced an increase in value as the rise of 30.8 per cent in quantity was unaffected by any lowering of prices. The value of abaca rose slightly although the severe fall in price of 11.1 per cent almost completely neutralized the 14.1 per cent rise in quantity shipped. Canned pineapple recovered from its 1954 slump when its value increased 12.1 per cent even as it registered a drop in volume. Chromite ore and iron ore also showed value increases.

On the whole, there was no drastic change in the commodity composition of exports. There was an increase in the share of logs and lumber while the share of copra fell slightly. The Philippines continues to earn about 80 per cent of total export income from four major classes of goods: coconut products, sugar, abaca, and logs, timber and lumber.

TEN PRINCIPAL EXPORTS OF THE PHILIPPINES

January-October 1955

(F.O.B. value in thousand pesos)

(Quantity in thousand kilograms)

	Jan.-Oct. 1955		Percent dist. (value)
	Quantity	Value	
Total Domestic Exports		661,717	100.0
Total Ten Principal Exports		590,105	89.2
1. Copra	663,218	197,475	29.8
2. Sugar, centrifugal	771,319	173,890	26.3
3. Abaca, unmanufactured	94,095	46,122	7.0
4. Logs, lumber & timber*	618,584	70,449	10.6
5. Desiccated coconut	41,104	21,579	3.3
6. Coconut oil	61,680	27,796	4.2
7. Iron ore	1,130,967	18,237	2.7
8. Pineapple, canned	31,805	10,554	1.6
9. Chromite ore	532,751	16,981	2.6
10. Copra, meal or cake	65,338	7,042	1.1

* In thousand board feet.

2. Imports: The accelerated pace of economic development has brought about a rise in imports during 1955. Taking the combined total of the ten principal import commodities which this year constituted 70.5 per cent of total imports, their value of P619.2 million represented an increase of 11.8 per cent over the previous year. On the whole, there were no major shifts in the commodity pattern of imports although slight changes in the representative shares of some commodities were noted. Textiles still outranks the others but its share of total imports was reduced from 17.0 per cent to 15.5 per cent. Cereals formed 6.4 per cent of imports, up from 4.8 per cent the year before. The share of minerals, fuels and lubricants also fell from 11.5 per cent to 10.1 per cent while that of base metals increased from 6.3 per cent to 7.1 per cent.

TEN PRINCIPAL IMPORTS OF THE PHILIPPINES

January-October 1955

(F.O.B. value in thousand pesos)

	Jan.-Oct., 1955		Percent distribution (Value)
	Value		
Total Imports	878,228		100.0
Total Ten Principal Imports	619,205		70.5
1. Tex. yarn, fabrics & made-up articles	136,259		15.5
2. Minerals, fuels, lubricants	88,560		10.1
3. Machinery other than electric	83,552		9.5
4. Base metals	62,447		7.1
5. Cereal & cereal prep.	56,202		6.4
6. Transport equip.	47,405		5.4
7. Dairy Products, eggs & honey	46,224		5.3
8. Elec. machinery	37,272		4.2
9. Paper & paperboard & manufactures thereof	30,783		3.5
10. Manufactures of metals	30,471		3.5

A broader classification of imports into capital goods, raw materials and consumer goods may serve as a basis for comparison as shown by the table.

IMPORTS BY COMMODITY CLASSIFICATION

January-October

F.O.B. value in thousand pesos

Classification	Jan.-Oct. 1955		Percent distribution
Total	878,228		100.0
Capital goods	148,442		16.9
Raw materials	491,133		55.9
Consump. goods	238,653		27.2

Although producers' goods still accounted for the major part (72.8 per cent) of total imports during the first ten months of 1955, there was a slight decrease in the proportion accounted for by capital goods because of a relative increase in the share of consumption goods. However, the 23 per cent rise in consumption goods consisted mainly of

essential food items and other consumer goods necessary to maintain and improve the standard of living of the nation.

C. Direction of Trade

An important feature in trade developments during 1954 was the reduction in the share of the United States in both imports and exports of the Philippines. During the first ten months of 1954, the United States obtained 61.7 per cent of total Philippine exports while the proportion of Philippine imports brought in from the United States was 68.0 per cent. Philippine trade in 1955 continues to reflect a wider diversification as the U.S. share in our exports and imports fell further to 59.6 per cent and 64.7 per cent, respectively. Correspondingly, trade with Japan increased as this year it purchased 15.4 per cent of exports compared to 11.3 per cent a year ago. Japan's exports to the Philippines formed 8.0 per cent of imports while last year the proportion was 6.0 per cent. The Philippines continues to enjoy a favorable balance of trade with Japan which this year is placed at P31.9 million. A substantial rise in the United Kingdom-Philippine trade was also registered. The value of English goods purchased increased by 40.2 per cent while the value of Philippine exports dispatched increased 21.4 per cent. On the other hand, trade with the Benelux countries declined. Outside of these, trade with the other regions of the world was carried on at substantially the same levels when compared to last year.

Meanwhile, continued expansion of trade with North-western Europe is being sought and the groundwork for a number of trade agreements has been laid. A trade protocol has been signed with West Germany and agreed minutes of discussions with the Netherlands have been drawn up. A trade treaty is also in the process of negotiation with Switzerland.

D. Revised U.S.-Philippine Trade Agreement

The revised trade agreement between the Philippines and the United States which was formalized in September, 1955 eases the transition of Philippine trade to a normal relationship with the United States. The revised agreement contains modifications to the 1946 Trade Agreement with the United States (commonly known as the Bell Trade Act). Under the 1946 Act duties were supposed to be levied on goods traded beginning July, 1954 and were to be exactly reciprocal with charges starting at 5 per cent of the rates levied on imports coming from other countries, and gradually rising until the full rate was reached after twenty years. As of January, United States tariffs on imports from the Philippines will start at a lower level and rise less rapidly than Philippine tariffs on American imports. In addition, the absolute quota on rice was dropped while coconut oil, pearl buttons, cigars and tobacco were transferred from the absolute quota category and made subject to tariff quotas. Absolute quotas on sugar and cordage were retained. In return for these concessions, the Philippines agreed to lift the 17 per cent Philippine foreign exchange tax. This tax will be replaced by an import levy to be progressively reduced and finally eliminated.

An executive order was proclaimed on December 31, 1955 modifying the rates of import duty provided under Philippine Tariff Act of 1909. For the first time in fifty years, American products will be paying tariff at the rate of 25 per cent of the full duty which now ranges from 30 per cent to 250 per cent for certain items as a result of the revised tariff schedule. If the regular volume of imports is maintained, the Philippine Tariff Commission expects the new tariff rates to bolster government revenue by around P100 million.

(End)

ECONOMIC SURVEY OF CHINA

(Compiled by United Nations ECAFE Secretariat)

PART TWO

Farm households are classified into three categories—surplus, deficit and self-sufficient. Surplus-foodgrain households have to sell to the State the surplus, which was fixed in the spring of 1955 by deducting consumption and public grain levy from estimated production under normal conditions but which is to remain unchanged for a period of three years except in the case of natural calamity when an adjustment may be made. The State may, however, raise the surplus quota for its purchase, in years of good harvest, not to exceed 40 per cent of the extra yield above the fixed norm, while surplus-foodgrain households may dispose of the balance, after deduction from production of the amount required for own consumption and public grain levy and for sale to the State, on the state controlled rural grain markets. Deficit-foodgrain households, mainly growing industrial crops such as raw cotton, can purchase from the State the foodgrain required to make up the deficit, which is fixed annually, and scheduled to decline each year. The self-sufficient foodgrain households neither sell foodgrain to the State nor buy any from it, but like the surplus-foodgrain households, may dispose of any balance in foodgrains which may arise either from increased production in normal years or from economy in consumption.

Foodgrain rationing applies to cities and market towns (including industrial and mining areas), not to villages to which the system of unified purchase and sale of foodgrains as described above applies instead. The ration varies according to type of labour, differences in age, and local foodgrain-consumption habits. In rice-consuming areas, the monthly per capita rice ration varies for 9 specified categories as follows: 25 kg for especially heavy physical labour, 20 kg for heavy physical labour, 16 kg for light physical labour, 14 kg for the "white collar" class (including civil servants, shop-keepers, employees of popular organizations etc.) 16 kg for students in universities and middle schools, 12.5 kg for ordinary residents and children of 10 years of age or above, and a lower amount for three categories of children under 10 years of age. In general, a higher ration is provided for areas consuming mainly coarse grains and flour. Foodgrain rationing was introduced between September and November of 1955 in different cities and market towns; it does not, however, apply to rural residents travelling to rationed areas or to railway and steamship passengers.

Raw cotton

The succession of two bad crops in 1953 and 1954 underlined the need for effective measures by the State to expand and control output, with a view to meeting the domestic consumption requirements of a growing cotton-textile industry. The 1955 estimate, 1.4 million tons or one third over the 1954 crop of 1.04 million tons, was reached primarily through the conclusion of advance purchase contracts with the cotton growers, a policy begun in September 1954. With a view to encouraging the peasants to sell all their marketable cotton to the State in 1955, the State Council issued a directive in March for the advance purchase of 1955 cotton, which introduced two new features, namely, (1) advance purchase of all cotton in excess of requirements for own consumption and tax payment, (2) agreement by the State, for each 50 kg of lint cotton bought in advance, to

pay 10 per cent of the purchase price in cash, to supply 5 kg of foodgrain and 3 1/3 metres of cotton cloth, in addition to the quota of foodgrain and cotton cloth originally fixed, and to guarantee the supply of 25-50 kg of bean cake (or 10-20 kg of chemical fertilizers). In mid-May when advance purchase of cotton by the State was about to be completed, it was estimated that in Hopei, Kiangsu, Shantung, Shansi, Honan, Shensi, Hupeh, Kiangsi, Liaoning, Jehol, Shanghai and Peking, the amount of raw cotton purchased in advance reached 650,000 tons, representing 73.4 per cent of the purchase quota.

Oil seeds

At the end of 1953 the production of oil seeds (including soybean, rapeseed and peanut) was reported to be 70-80 per cent of the pre-war level, and fell short of the requirement for domestic consumption and exports. As a result, the Government Administration Council issued, on 17 December 1953, a directive on the increase in production of oil seeds and took steps to enforce planned purchase of oil seeds and planned supply of vegetable oils in the following year.

During 1953/54 soybean production was estimated to have risen from 9.04 million tons to 10.13 million tons (with production in the North-East rising from 3.65 to 4.08 million tons), rapeseed production from 2.72 million tons to 2.90 million tons, and peanut production from 2.09 million tons to 2.90 million tons. Despite the 1954 increase in production, the government purchase of the autumn crop reached only 86 per cent of the planned quota for the period October 1954 to January 1955; in areas other than the North-East and the Inner Mongolia Autonomous Region, it was equal to only 64.8 per cent of the total planned quota for the autumn crop.

In 1955 the government planned to raise the production of oil seeds by one-third above the 1954 level; but owing to drought and for other reasons, the sowing programme for the spring crop was not completely carried out, and owing to competition of foodgrain and cotton crops, the prospect for reaching the target set for the autumn crop also appeared limited. In late October the oil seed crops for 1955 were reported to have risen by 20 per cent over 1954. With a view to meeting the increasing demand for domestic consumption of vegetable oils, steps were taken to produce 100,000 tons more vegetable oil than in 1954, partly by raising the extraction efficiency of oil presses. By the end of June, 50,000 tons of the proposed increase had been realized.

Agricultural co-operation

Co-operation takes various forms—from the provision of credit and supply of consumer goods and agricultural requisites to the production and marketing of farm crops. It is the means by which the present small peasant economy is expected to be transformed into socialized agriculture on a large scale; for this reason it has been extended by the government as a major policy measure under the Five-Year Plan.

Agricultural producers' co-operatives, the basic form of co-operation in China, are expected to "organize labour

power rationally and so increase productivity, use the land systematically and effectively and extend the area under cultivation, resist or reduce the ravages of nature, and with State help introduce gradually technical improvements in agriculture." This is designed not only to socialize agriculture, but to make it possible for agricultural production to keep pace with the growing demand of the nation for food and raw materials in the implementation of its programme for industrialization.

In view of the great importance attached to the development of agricultural producers' co-operatives, a resolution was taken to hasten their consolidation and extension at the Sixth Plenary Session of the Seventh Central Committee of the Communist Party of China on 11 October, 1955, on the basis of the report delivered by Mao Tse-tung on 31 July. This resolution laid down general principles concerning the organization, operation and financing of these co-operatives, and the financial and technical aid to be extended to them by the State, so as to achieve the primary aims of the movement which are "to turn some 110 million peasant households from individual farming into collective management and then go further to accomplish the technical reform of agriculture, to eliminate the last remaining system of exploitation in the rural areas, capitalism, and to establish socialism."

The number of agricultural producers' co-operatives rose from 100,000 in the spring of 1954 to 650,000 in June 1955, embracing some 17 million peasant households, or 15 per cent of the country's total. By the end of December it rose further to 1,950,000 with a membership covering 60 per cent of the peasant households in the country, which exceeded the 33 per cent target proposed under the Five-Year Plan.

Although a majority of the agricultural producers' co-operatives organized during the last few years are reported to be "on a firm footing," and receive favoured treatment from the government in the form of seed and fertilizer supply, preferential loan arrangements, etc., "many problems still remain in regard to the calculation of labour contributed, remuneration for land and other pooled means of production, finding funds for production, and the determination of the ratio of reserve funds in relation to other items."

Membership in the credit co-operatives is reported to have increased rapidly from 43 million at the end of September 1954 to 70 million in early March 1955, with total deposits rising to Yuan 488 million, in part as a result of persuasive tactics by rural cadres. According to incomplete statistics for end-1954, the total loans outstanding amounted to Yuan 314 million. On 25 March 1955 the China Bank of Agriculture was formed to undertake, among other functions, that of granting long-term and short-term credit to various types of co-operative and mutual aid teams, under the guidance of the People's Bank of China. It has decided to issue loans totalling Yuan 138 million this year to needy peasants desiring to join agricultural co-operatives, for repayment in five years.

The supply and marketing co-operatives, with a membership of 160 million, are extensively developed; they are the media by which the State is implementing its policy of planned purchase and distribution of foodgrains, raw cotton and edible oils. While they undertake, in conjunction with the network of State trading companies and their branches throughout the country, to purchase the farm products, usually through the conclusion of contracts in advance, they also supply the peasants with essential consumer goods and various kinds of agricultural requisites.

Water conservancy

State outlay on water conservancy during the first five-year period has been budgeted at Yuan 2,490 million, in

addition to a sum of Yuan 770 million spent during 1950-52. It represents 4 per cent of the total State outlay on economic development under the First Five-Year Plan.

Water conservancy work consists mainly of irrigation, drainage and flood control, but also includes multiple-purpose projects already initiated on the Hwai River and planned for the Yellow River; it usually employs a large force of rural surplus labour with relatively small capital outlay.

Irrigation works in 1954, mainly small projects undertaken by the peasants themselves, helped to expand the irrigated area by 700,000 hectares, as compared with 633,000 hectares in 1933. In 1955 the area already under irrigation is estimated to have risen by 1 million hectares. The Five-Year Plan proposes to extend the irrigated area by 4.8 million hectares and by 1957 the total area of irrigated fields is expected to reach 24.6 million hectares.

Flood control work, which played an important part in alleviating the losses from the great floods on the Yangtze and Hwai rivers in 1954, mainly consist in strengthening and building dykes and constructing water-detention basins and storage reservoirs.

In 1954 large-scale rehabilitation and strengthening of dykes was carried out after the great flood. Works on the Yangtze River involved 344 million cubic metres of earthwork and 540,000 cubic metres of broken-stone protection work. The main dykes along the Chinkiang section and around the city of Wuhan were raised above the highest 1954 water marks. Also, the important dyke systems guarding the great plain north of the Hwai River were raised above the exceptionally high water marks registered in 1954.

Under the Five-Year Plan, five large reservoirs capable of regulating the Yellow River flow are to be built at Sanmen Gorge and four other sites. Four big reservoirs at Nanwan, Poshan, Futseling and Meishan on the Hwai River Basin, capable of storing more than 3,800 million cubic metres of water, are included in the Five-Year Plan for controlling the flood flow of its main tributaries—the Hun Ju, Sai and Peipei rivers. The Poshan (280 million cubic metres) and Futseling (470 million cubic metres) reservoirs were completed in 1954, while construction work on Nanwan (900 million cubic metres) and Meishan (2,100 million cubic metres) reservoirs is now proceeding. In 1954 was also completed the Kuanting Reservoir on the Yungting River, with a capacity of 2,300 million cubic metres, the largest of all reservoirs so far completed in mainland China. The construction of Tahofang Reservoir along a tributary of the Liao River in the North-East is still under way.

In 1955 early preparations have been made to forestall the possible recurrence of a big flood. In March, 3 million civilians participated for two months in the strengthening of dykes on the Yangtze River and its tributaries in the five provinces of Hupeh, Hunan, Kiangsi, Anhwei and Kiangsu. Directives were issued by the Ministries of Agriculture and Water Conservancy on 14 May to link anti-drought work with anti-flood work. The flood in 1955 was, however, not very severe, as the highest water level reached at Wuhan (29.77 metres), a key observation point for the Yangtze River, was substantially lower (by 3.61 metres) than the highest level reached in 1954.

Modernization of agricultural technique

Socialization of agriculture is to be achieved, during the period of transition, by the extension of co-operative organization on the one hand, and by the modernization of agricultural technique on the other. In order to achieve the latter, a number of measures are being taken which include agricultural research and education, improvement in agricultural methods and technique and mechanization of agricultural production.

In agricultural research and education, China today has 10 central and 32 provincial agricultural research institutes, 32 agricultural colleges and institutes, and about 2,000 agro-technical or farm-extension stations, with another 2,000 planned to be set up in the current year. As a result of the research work already done, many new seeds are being developed to raise the per hectare yield by 10-20 per cent, e.g. Pima No. 1 wheat applied to 500,000 hectares of cultivated land in Shensi province in 1954. The USSR method of close planting, adapted to suit local conditions, has increased the per hectare yield by about 20 per cent. Double-cropping of rice is being extended. The locust pest is being combated through the application of No. 666 insecticide. Vaccines are being manufactured to wipe out pig disease. Land improvement, such as changing alkaline and sandy soil into fertile fields, terracing sloping land and irrigating arid land, is also being extended. However, much remains to be done in the study of heredity, bacteriology, climatology, and agricultural engineering.

The use of better farm tools and implements is being extended. Twenty thousand double-bladed or single-bladed wheel ploughs, which can be drawn by a horse, mule or donkey and perform deep, fast and smooth ploughing, were made available from August to November 1954 to peasants in eight provinces; an agreement was signed between the First Ministry of Machine Industry and the China Federation of Co-operatives to produce 400,000 such ploughs in 1955. The output is planned to rise to 1.5 million by 1957. Another improved tool is the three-bladed hoe, which, if drawn by a draught animal, can perform ten times the work done by a peasant working with the old-type hoe. The Ministry of Agriculture, the First Ministry of Machine Industry, the China Federation of Co-operatives and the People's Bank joined in March 1955 to promote the use of over 60,000 three-bladed hoes in the year in 20 provinces, Peking municipality and the Inner Mongolia Autonomous Region, of which 40,000 are reported to have been completed before the end of April by 13 plants under the First Ministry of Machine Industry. Efforts are also being made to standardize the improved water wheels, of which 600,000 were reported to have been supplied during the last five years. Before July of this year all provinces were required to submit plans for the extended use and manufacture of the improved water wheels in 1956 to the Ministry of Local Industry, which will in turn plan for the production of the required quantity according to standards suitable to local conditions. In all, improved farm implements to be supplied to the peasants this year are expected to be 2.8 times as many as last year.

China is, however, faced with a serious shortage of chemical fertilizer, which is essential to the improvement of the per hectare yield of many crops. Imports are limited because the expansion of chemical fertilizer production under the Five-Year Plan from 189,000 tons to 590,000 tons does not adequately meet the requirements.

In the mechanization of agricultural production a beginning, though limited, is being made through the establishment of mechanized State farms and tractor stations, largely in sparsely settled parts like the North-East. The number of mechanized State farms increased from 50 in 1952 (with 135,000 hectares of arable land and 1,531 tractors of 15 hp each) to 106 (with 276,000 hectares of arable land or 0.2 per cent of the total cultivated area in China and 3,012 tractors of 15 hp each) in 1955. These farms, though limited in number, are intended to produce "important exemplary effects on the broad peasantry; their extension is limited by the difficulty of meeting the need for large capital investment.

The tractor-stations, whose function is to service the co-operative and collective farms of the peasants, numbered

89 in 1954 (with 778 15-hp tractors) and will reach 112 in 1955 (with 1,896 15-hp tractors); the proposed number to be added during the five-year period is 194 with 2,897 15 hp tractors to serve 230,000 hectares of farmland.

THE INDUSTRIAL SITUATION

Industrial production

The industrial picture in China is dominated by the emphasis on "producer goods" as against "consumer goods," or on "heavy industry," as against "light industry". This is reflected not only in the pattern of government investment in industries, but also in the structure of industrial ministries in the Central People's Government today.

STRUCTURE OF INDUSTRIAL MINISTRIES IN THE CENTRAL PEOPLE'S GOVERNMENT, 1955

Producer goods	Coverage of industries
Coal Ministry	Coal
Petroleum Ministry	Petroleum
Electric Power Ministry	Electric power
Heavy Industry Ministry	Iron and steel, non-ferrous metals, building materials (cement, timber, etc.), basic chemicals (acids, soda, fertilizers)
First Ministry of Machine Industry	Engineering (machine tools, various kinds of light and heavy machinery and equipment)
Third Ministry of Machine Industry	Local, as distinguished from national, engineering enterprises
Consumer goods	
Textile Industry Ministry	Cotton and other textiles
Light Industry Ministry	Food and drinks (flour, oils and fats, sugar, salt, beer, canned food etc.), cigarette, paper, drugs, rubber products, etc.

Note: The Second Ministry of Machine Industry is presumably in charge of defence industries, on which official press releases have been silent.

Further, under the First Five-Year Plan the share of "means of production" in the total gross value of industrial output is expected to rise from 39.7 in 1952 to 45.4 per cent in 1957, with a corresponding fall in the share of consumer goods from 60.3 per cent to 54.6 per cent. During the first half of 1955, it stood at 43.8 per cent. It may be noted, however, that the output of consumer goods in absolute terms has risen in recent years, despite a fall in its share in total industrial output.

Fuel and power

Coal output, mostly from the North and North-East, has risen steadily in recent years. In the first half of 1955, the output from the State-owned mines rose by 11.6 per cent over the corresponding period a year before. Most of the increase came from the re-equipped and newly-opened mines. The planned rise in the year's State investment, 50 per cent over 1954, carries forward the campaign to modernize the method of coal mining.

Despite recent increase, the output of crude petroleum and petroleum products is still low, and even after completion of the Five Five-Year Plan "it will not be possible to effect a radical improvement in the retarded state" of the industry. In 1955, the Ministry of Fuel Industry decided to allocate 44 per cent more funds to expand the industry, with appropriations for oil prospecting equal to 69 per cent of the total spent in the five years since 1949. It is planned to accelerate the development of the Yumen oil-field and continue restoration of the equipment for shale-oil refining in the North-East.

The output of electricity increased by 20 per cent to 10,960 million kWh in 1954. A further rise of 18.3 per cent is reported to have taken place during the first half of 1955, as compared with the corresponding period a year before. In 1955, 30 plants (newly built or reconstructed) were expected to be brought into operation to raise the

generating capacity of mainland China by 20 per cent; of these, work is reported to have begun on 10 thermal power plants in Shihchiachuang, Taiyuan, Lanchow, Hwainan and Hsinichssu, and 2 hydro-power plants on the Shangyu and Yili Rivers. The Ministry of Fuel Industry has decided to increase the investment in thermal plants by 55 per cent and that in hydro-power plants by 66 per cent, as compared with 1954.

Hydro-power resources are estimated to approximate 150 million kW, with 65 per cent concentrated in the South-West. Sixty-six per cent more funds will be allocated to hydro-power development in 1955 than in 1954. The largest hydro-power station, in Hsiao-fengman on the Sungari River in the North-East, completed under the Japanese in 1943 with a capacity of 280,000 kW but partly dismantled after the second world war, is being restored; its generating capacity is expected to reach 567,000 kW by 1959. At present six more hydro-power projects are under construction, of which those at the Kwanting Reservoir near Peking and at Shihtsutan on the Lungki River in Szechwan are the most important.

Iron and steel

The output of pig iron rose to about 3 million tons, or by 36 per cent in 1954, as compared with 19 per cent in 1953. Iron ore is mined and smelted in Anhsan, Penki, Shihchinshan, Lungyen, Yangchuan, Tayeh, Chungking, Maanshan and other areas, and existence of large deposits near Paotow in Inner Mongolia Autonomous Region has, among other things, prompted the State to erect a large iron-and-steel works there.

The output of steel, chiefly from Anshan, but also from other centres such as Taiyuan, Chungking, Tientsin, Tangshan and Shanghai, rose by 25 per cent to 2.2 million tons in 1954, owing to increased State investment and greater labour effort. During the first half of 1955 the steel output reached 1.35 million tons, and is expected to rise to 2.7 million tons for the whole year. In Anshan, 17 major projects, largely dismantled immediately after the war, are reported to have been restored or completed by August, including a heavy rolling mill, a seamless tubing mill, a sheet-steel mill, 4 automatic blast furnaces, 8 coke-oven batteries, an iron-ore dressing plant, and an iron sintering plant. In addition, two new iron-and-steel combines will be constructed in Wuhan and Paotow, the first stage in the construction of which is expected to be completed by 1961-62.

Engineering

The engineering industry is reported to have made rapid progress, although one half of the newly installed machinery and equipment is still imported from abroad. The output in 1954 showed a rise of 25 per cent over 1953. In 1955, 40 per cent more investment is planned for the building and reconstruction of 114 projects, of which the 22 major ones will include the No. 1 machine-tool plant in Shenyang and a power-equipment plant and an electrical-instruments plant in Harbin, all to be completed during the year, as well as plants to make heavy machinery, ball bearings, low-voltage switch gear, boilers and steam-turbine generators. Preparations are also being made to build factories making petroleum-extracting and refining machinery, locomotives and mining machinery.

Cement

Cement output rose from 2.9 million tons in 1952 to 4.6 million tons in 1954, through increase in capacity. In 1955, a further rise of 22 per cent over the 1954 level is planned. Old plants, including those in Canton (Sai Tsun), Nanking (Kiangnan), Tangshan (Hua Hsin), Penki and Harbin, have been restored to production or expanded. New plants also

are being built; these include one in Tatung, the first mechanized plant; one in Szechwan, the biggest in the South-West; one in Lanchow, the first in the North-West; and one each in Liulienho (Peking) and Nanping (Fukien province).

Chemicals

Though the development of the industry is still on a moderate scale, an increase of 43 per cent in the production of chemicals in 1954 over 1953 was reported: sulphuric acid 33 per cent, caustic soda 30 per cent, pure soda 39 per cent and ammonium sulphate 32 per cent. In the first half of 1955 production rose by 23.5 per cent over the corresponding period a year before.

In 1954 chemical-fertilizer factories under the Chemical Industry Administrative Bureau of the Ministry of Heavy Industry produced 38 per cent more than in 1953 but in 1955 they are expected to produce only 11 per cent more than in 1954. Two thirds of this year's total State investment in the chemical industry is, however, ear-marked for developing the chemical-fertilizer industry.

Cotton textiles

In 1954 cotton yarn output rose to 4.6 million bales (of 400 lb each) or 836,000 tons, and cotton cloth to 153 million pieces or bolts, or about 2,900 million metres.

During the first three years of the plan (1953-55) 750,000 spindles and 22,000 looms are reported to have been installed. Four mills each with 50,000 spindles and 1,000 looms went into production in 1954, and four more with double that capacity were scheduled to go into production in 1955; designs are ready for the construction, starting 1955, of another four mills. The industry was however faced with a shortage of domestic cotton in 1955, and had to import from Egypt and other sources. The 1955 crop of raw cotton, for consumption mainly in 1956, is however estimated to have risen over 1954 by one third.

Handicrafts

Handicraft production contributed 21 per cent to the total value of gross industrial (including handicraft) production of Yuan 35,220 million in 1952; the proportion was above 80 per cent in the industrially-under-developed areas in the South-West and North-West. In July 1954 the industry was estimated to have had 19.3 million handicraftsmen and workers, producing an annual output value at Yuan 10,000 million. It is stated to have supplied over two thirds of the various farm implements and daily necessities of the peasants.

In order to expand production and export of handicraft products and to exercise control over output, the government has helped to promote the establishment of handicraft producers' co-operatives since 1950. The co-operative membership and annual value of output in 1952 were respectively 200,000 and Yuan 240 million; they are expected to rise in 1955 to 900,000 and Yuan 1,360 million respectively.

Railway transport

Railway transport is an important means for redistributing industries, aside from its role in national defence and development of the hinterland.

The First Five-Year Plan proposes to allocate a sum of Yuan 5,671 million to capital construction on railways, or 69 per cent of the total of Yuan 8,261 million for the whole field of "transport, post and telecommunication." Of the sum allotted to railways, 41.7 per cent is to be used for the construction of new lines, and 54.3 per cent for reconstruction and equipment of existing lines (32.8 per cent for

reconstruction, 21.5 per cent for acquisition of locomotive and rolling stock). The plan proposes to reconstruct 6,000 kilometres of existing lines and build 4,000 kilometres of new lines, of which 2,640 kilometres will be completed by the end of 1955.

The domestic lines completed during the year include the 314-kilometre Litang-Tsamkong line opposite Hainan Island, the 105-kilometre Fengtai-Shacheng line in the North, and the 90-kilometre Yierhshih-Taheikou forest railway in the North-East. The 685-kilometre Paoki-Chengtou railway is to be completed by 1956, but the 2,800-kilometre Lanchow-Sinkiang line and the 1,100-kilometre Paotow-Lanchow line will probably be only one third built by 1957. The construction of the Yintang-Amoy Railway will extend beyond 1957. It is reported that the railway from Tsining in mainland China to Ulan Bator in the Mongolian People's Republic will be open to traffic, thus linking with the Trans-Siberian Railway and shortening the distance from Peking to Moscow by over 1,000 kilometres, before the end of 1955.

In his statement to the First National People's Congress on 23 July 1955, Teng Tai-yuan, Minister of Railways, stated that 40 per cent of the capital construction work contemplated for railways under the First Five-Year Plan had been completed during the first two and a half years; he proposed a reduction of the total allocation for capital construction in railways during the five year period by Yuan 174 million or 26.9 per cent.

The First Five-Year Plan envisaged an increase over 1952 by 100 per cent in the volume of railway freight carried and by 60 per cent in the volume of passenger traffic. The annual rate of growth has, however, slowed down from 1953 for passenger traffic and from 1954 for freight traffic. The Minister of Railways expressed concern over the rapid growth of freight traffic expected after the First Five-Year Plan period, especially in 1959-60, as the 694 above-norm industrial projects, especially the 156 USSR-aided projects, are expected to come to completion by that time and will impose a heavy traffic burden on the railways.

Since 1 January 1954 mainland China has operated an international joint rail transport service with 10 other nations—Albania, Bulgaria, Czechoslovakia, the Democratic People's Republic of Korea, the German Democratic Republic, Hungary, the Mongolian People's Republic, Poland, Rumania and the USSR. Beginning 1 August 1955, through traffic has commenced with the railways in the Democratic Republic of Viet-Nam, through the opening to traffic of the Hanoi-Munnankwan Railway.

Industrial quality

The fulfilment of quantitative targets for industrial production has sometimes been achieved at the expense of quality. In June 1954, attention was drawn to the "prominent defects" in industrial production, which included "variable standard of quality of products and increase of rejected and inferior products in some State-operated factories and mines." Further, there was stated to be a tendency toward deterioration in quality of some products, e.g. cement, iron casting, cotton thread and cigarettes. Many factors were held responsible for this—different forms and degrees of conceit or self-complacency among the leading personnel of certain factories and mines, one-sided simple-task viewpoint of such personnel stressing quantity at the expense of quality, lack of definite quality norms and technical work rules or failure to supplement or revise them, and lack of strict technical testing of raw materials, of technical control in mechanical processes, of inspection of products, etc. To remove these factors and overcome the defects in industrial quality, it is proposed to raise the consciousness of workers and educate them on the importance of attaining quality targets, to introduce systems of strict technical control and examination, to formulate standards for industrial departments of ministries and eventually national standards, and to strengthen inspection and supervision of industrial production.

(To be Continued)

NEW RAILWAYS IN CHINA

It was announced from Peking on February 19 that China has built over 2,500 miles of railways and restored 800 miles to traffic since the People's Government began work on the railways in 1950. In addition, about 750 miles were doubled-tracked. By the end of 1955 China had more than 20% more railways in operation than in 1950. All the rest of the railways, exceeding four-fifths, were built by foreign engineers and, during the latter period of Nationalist rule, by Chinese engineers.

Two-thirds of the railways scheduled to be built in the first Five Year Plan have already been completed. Work has been started on 19 railways since the Plan started in 1953. Those completed include the 220-mile line from Tsining to Erhlien, on the Outer Mongolian border which links up through the Trans-Mongolian line with the Siberian railways. Several projects not originally included in the first Five Year Plan will also start before the second plan is applied. They include the Neikiang-Kunming and Chungking-Kweiyang lines in South-west China.

The road-bed of the 200-mile railway line from Hanoi to Lao Kay, on the border with China, was completed on February 21, and track-laying has now reached a point 60 miles from Lao Kay, which is expected to reach by April. The rebuilding of this line began in March last year, and

the section of the line from Hanoi to Vietri was opened to traffic on January 10.

The first of the eight foundation piers for the Yangtze River bridge, which will link up all railway and highway communications north and south of the great river, emerged from the water on Feb. 20. Work is being speeded up on what will be the biggest bridge in the Eastern Hemisphere so that it can carry the first train across the Yangtze at the earliest possible date. Originally the date was set for 1958. The greater speed in constructing the piers arises from the adoption of the modern method which makes diving unnecessary. This enabled work to go on during high water last year.

Peking announced on February 2 that three new railway lines, construction of which is to begin shortly, will link up Yunnan, Szechuan, Kweichow and Kwangsi Provinces in south-western China, with the rest of the country. The Ministry of Railways says that the sections of the three new lines to be built this year are the Neikiang-Ipin section of Szechuan to be linked up ultimately with Kunming, in Yunnan; the Kanshui-Kweiyang section of the Szechuan-Kweichow line; and the Kweiyang-Tuyun* section of the Kweichow-Kwangsi line. Other new railways will also be started this year. One is to link up the provinces of Anhwei

and Kiangsi, another between Hunan and Kweichow, and the third between Kansu and Chinghai. The old railway line from Pesechai in Yunnan to Hokow on the border of Vietnam will also be restored. The building of these lines was not included originally in China's first Five Year Plan. The Ministry of Railways announced on February 3 that 1,800 miles of new railways, or two-thirds of the total scheduled to be built in the first five year plan, were completed in the past three years. The Lanchow-Sinkiang railway will reach Yumen oilfield and go even beyond it in 1956, and the Paochi-Chengtzu Railway is also to be completed this year. The first passenger train pulled out from Taiyuan station in Shansi on February 1 to run on the Tatung-Puchow Railway, whose narrow gauge has now been converted to standard gauge. The change is expected to double the freight traffic on the railway.

It is expected that by the end of June, 1956, track-laying on the northern section of the Paochi-Chengtzu Railway will be completed from Yangchiawan to Fengchou, 110 kilometres from Paochi, one year ahead of the schedule stipulated in the State plan, and efforts will be made to link up with the southern section at Huangsha River during the second half of the year, when the railway will be open to traffic on the whole line. The Paochi-Fenghsien section of the line will be the first in China to run electric-powered trains. This section passes through the Chinling Mountains, with an elevation of 5,000 feet. Before the engineers began to design this project they visited the small scale electric train projects at Fuhsin and Fushun coal mines, studied the "advanced Soviet experience" and obtained the direct assistance of Soviet experts.

In Sinkiang, several possible routes from Urumchi to the Sino-Soviet border have been chosen after two months of surveying. The route will be a part of the Lanchow-Sinkiang Railway which will link up with the Soviet railway system. The Lanchow-Urumchi-Alma Ata Railway will be built in accordance with an agreement between China and the Soviet Union, signed in 1954.

Traffic was officially opened on the section of the Paochi-Chengtzu Railway between Kwangyang and Lioyang on New Year's Day. This section is some 90 miles long and crosses the rambling Tapashan range and twice over the rapid Kialing River. The region is otherwise almost wholly lacking in communications facilities.

Traffic on the Chefoo-Langtsun branch railway, linked with the Shantung Railway, was inaugurated on January 1, and the arrival of the first trains was ceremonially greeted at the various stations.

Work started before the end of 1955 on four of the sixteen small branch lines which will link coaimines, oil re-

fineries, cement factories and other industrial establishments with the Paotow-Lanchow and Lanchow-Sinkiang Railways now under construction. All these 16 branch lines, totalling about 100 kilometres, are to be completed this year. When the two trunk lines are completed, Lanchow will connect the eastern seacoast and China's future iron and steel base at Paotow with Sinkiang and the Far West.

The builders of the Lanchow-Sinkiang Railway have pledged themselves to reach Yumen by August 1 this year—17 months ahead of the schedule laid down under the first Five Year Plan. The new railway will be of first importance in improving the transport of crude oil from the big Yumen oilfield to refineries in other parts of the country. Construction has begun in advance of schedule on two bridges, key projects on the new section between Chingshui and Yumen. Prefabricated concrete parts and pipes are being provided for the bridges and culverts on this section, and track-laying machinery will be used to double the speed in laying the remaining tracks.

A railway is also to be driven to the Tsaidam Basin, where large oil prospecting is under way. This railway, now being surveyed, will start from Hokow, west of Lanchow, will pass Sining (capital of Chinghai province) and reach the Tsaidam Basin. The survey of the section to Sining is scheduled to be finished during the autumn. The line will pass by Koko Nor (the Chinghai Lake) and the Chachia salt lake. Petroleum, salt and other mineral resources lie close to the course of the railway, which will help develop the economy and improve the living standards of the minority groups in the area.

Apart from the construction of new railway lines, the Peking Government has also done much work in double-tracking the trunk railways. It carried on the work begun by the old Peking-Mukden Railway authorities on that line, extending the double-tracking into the North-east to Mukden, and began to double-track the old railway from Peking to Hankow. Other trunk lines and sections that carry heavy loads will also be double-tracked during the first Five Year Plan, among them the trunk line between Dairen and Changchun. Preparations are being made to double-track sections of the Shihchiachuang-Taiyuan railway which links these two growing industrial centres, while the narrow-gauge line bisecting Shansi province from Tatung to the Yellow River is also being widened to standard gauge. Work is already in progress on the southern section. The Lunghai Railway, running from the seaboard near the southern Shantung border all across the country to Lanchow in the North-west, and the railway from Peking to Paotow—a future steel centre in Inner Mongolia (formerly Suiyuan)—will also be double-tracked.

REPORTS FROM CHINA

PRODUCTION TARGETS

Oil Output: China's total output of crude oil in 1955 was four times the highest record reached before 1949. Petroleum prospecting increased 13-fold compared with 1949, in terms of personnel and equipment. During 1955, 170 prospective oil bearing structures and many natural gas formations were located. Most are concentrated in Kansu, Changhai, Sinkiang and Szechwan. Rich deposits of oil shale and bituminous coal suitable for synthetic oil production were found in many provinces.

Medical Equipment: China which had no medical appliances industry in the past is now turning out more than

500 kinds of medical instruments including 200-milliampere diagnostic X-ray equipment for radiography and fluoroscopy, X-ray fluoroscopes of all sizes, ultra-short wave apparatus, universal operating tables, dental equipment and electrical sterilizers.

Farm Tools: The Peking Agricultural Machinery Plant has already sent 10,000 double-bladed wheel ploughs to all parts of the country this year. Production of the double-bladed wheel ploughs has also been stepped up in many provinces. The Kirin Provincial Farm Tool Factory will produce 40,000 instead of 20,000 ploughs in the first quarter of this year. Farm tool factories throughout the country are expected to supply the country's cooperative farmers

with 800,000 double and single-bladed wheel ploughs by mid-April this year. These ploughs save labour and plow deeper and more even than the old wooden-handle ploughs. Szechwan is building a farm tool factory with an annual output of 150,000 double-bladed wheel ploughs. The new factory is situated near the Chengtu-Chungking Railway in Neikiang County. In Nanking a motor car spare parts plant will be converted to a tractor plant. When completed in two years' time, the plant will turn out Soviet DT-24 type tractors. Trial production will be conducted this year, and limited production is scheduled for 1957.

Pig Iron: Anshan will turn out 60,000 tons of pig iron above quota this year. This year's pig iron quota is 35 per cent above last year's.

Power Industry: Small hydro-power generators for rural areas are now manufactured on a trial basis in Changchun. One such generator can produce three kilowatts of power when placed in streams one metre deep having a flow of 1.5 to 2 metres per second. It can supply light for 100 households.

Serum Against Rinderpest: Serum to protect the Tibetan yak against rinderpest is now produced for the first time in Lhasa. The Lhasa Serum Laboratory plans to turn out 600,000 c.c. this year. It will also produce 170,000 c.c. of other serums and vaccines. Yaks provide the Tibetan people with meat, butter and hides. They also serve as a means of transport.

AGRICULTURAL DEVELOPMENTS

Agricultural Loan: 3,000 million yuan will be issued by state banks for agricultural purposes this year. Most of the loan will be used to provide poor peasants with the necessary funds to join agricultural producer cooperatives, to finance the capital construction of agricultural cooperatives and to cover their production costs. The loan will also help to develop state farms, fishery and livestock breeding.

Grain Output: Kwangtung plans to harvest at least 12.9 million tons of grain this year, or 18 per cent more than last year, and to reach the quotas originally set for 1957 under the first five-year plan. Szechwan plans to produce a total of 22.2 million tons of grain this year. This target exceeds the planned quotas for 1957 under the first five-year plan.

Heilungkiang State Farms: State mechanised farms of Heilungkiang will complete their quotas for the five-year plan in four years. Plans have been drawn up to plow 141,000 hectares of land and reclaim 139,000 hectares of virgin land. These figures are higher than the total area brought under cultivation by state mechanised farms of the province in the past eight years. The state farms will use fertiliser over an area of 65,000 hectares this year, more than double that of last year. Over 17,000 tons of seeds have been prepared for the spring sowing, of which more than 12,000 tons of wheat seeds are of high-yield variety.

Tobacco: China will produce 422,500 tons of cured tobacco this year.

FISHING INDUSTRY

Kwangtung plans to catch nearly half a million tons of fish this year, 77,000 tons more than last year. In Hupeh, 10 state-owned fish-breeding grounds capable of producing 100,000 tons of fish a year are being built or planned. These breeding grounds, ranging in area up to 43,000 hectares, will be completed early in 1957.

RAILWAYS AND HIGHWAYS

China built nearly 4,000 kilometres of railways and restored 1,200 kilometres to traffic from 1950 through 1955. In addition, 1,100 kilometres of railways were double-tracked. By the end of last year China had more than one fifth more railways in operation than in 1950. Two thirds of the 4,084 kilometres of railway scheduled to be built in the first five-year plan period have already been completed. Major railways still under construction include the Lanchow-Sinkiang, Chengtu-Paoki, Lanchow-Paotow, Peking-Chengteh and Yingtan-Amoy railways. Several projects not originally in the five-year plan will be started. They will include the Neikiang-Kunming and Chungking-Kweiyang lines for Southwest China.

Construction of the Hungshui River Bridge on the Lanchow-Sinkiang Railway is making good progress. The bridge was named the "Sino-Soviet Friendship Bridge" at a recent meeting on the construction site to mark the 6th anniversary of the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance. The Yangtze River Bridge will be completed by the end of next year, according to a revised plan of the engineering bureau in charge of the project. Originally this 1,000-metre double decker road and rail bridge was scheduled to be completed in 1959. Its construction started early last year. When completed, the bridge will provide uninterrupted traffic from Peking to Canton. It will be the biggest bridge in the Eastern Hemisphere.

Five new highways were recently opened to traffic in Yunnan. Another 18 are being built. This province plans to build 28 highways totalling 1,300 kilometres this year. Over 1,000 kilometres of highway will be built this year in the Tsaidam basin in Chinghai. The Tsaidam basin is one of China's most promising oil areas. Construction has begun of a road between Tunhwang and Kar Mu. It will cut through the middle of the basin. Three other roads will be started soon.

RICKSHAS IN SHANGHAI

The last two rickshas in Shanghai were sent to the museum by the communications bureau last month. Ricksha was introduced to Shanghai from Japan in 1874. In 1949, there were 5,000 rickshas in Shanghai with 7,000 ricksha pullers. With the increase of public vehicles, the city government systematically helped the ricksha pullers to get other jobs. Many of them have become automobile drivers, skilled workers or have joined agricultural production. The aged and homeless were sent to rest homes.

FINANCE & COMMERCE

HONGKONG EXCHANGE MARKETS

March 12-17, 1956

March	U.S.\$		Notes	
	T.T.	Low	High	Low
12	\$591	\$590 1/4	588 1/4	587 1/4
13	\$590 3/4	588	587 3/4	586 1/4
14	587	585 3/4	586 1/4	584 1/4
15	588	587	586 1/4	585 1/4
16	587 1/4	587	586 1/4	585 1/4
17	587 1/4	587	585 1/4	585
D.D. rates: High 589 Low 584.				

Trading totals: T.T. US\$2,900,000; Notes cash US\$350,000, forward US\$ 2,390,000; D.D. US\$340,000. The market remained easy. Rates were lower than those before the recent increase of bank rates in London. Cross rates in New York were very steady. In the T.T. sector, offers from Japan, Korea, Indochina and the Philippines exceeded the demand from importers and exchange operators. In the Notes market, cash notes poured in from Japan and Korea. Interest favoured

sellers at 45 HK Cents per US\$1.009. Speculative positions averaged US\$2 1/2 million per day. In the D.D. sector, the market was quiet.

Yen: No business was recorded in forward. Change over interest favoured buyers at HK\$3.47 per Yen 100,000. Cash quotations were HK\$1,475—1,465 per Yen 100,000.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK\$: Philippines 1.905—1.885;

Japan 0.0149—0.0146; Indochina 0.0714; Malaya 1.88; Thailand 0.273. Sales: Pesos 290,000, Yen 98 million, Piastre 10 million, Malayan \$240,000, Baht 5½ million. The market was quiet.

Chinese Exchange: People's Bank notes remained at HK\$1.60 per Yuan. Taiwan Dollar notes were HK\$160—157 per thousand, and remittances 147—145. Only a small volume of business was transacted.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 15.82—15.74, Australia 12.25, New Zealand 13.93—13.85, Egypt 15.20—15.15, South Africa 15.53—15.50, India 1.1875—1.18, Pakistan 0.905—0.90, Ceylon 0.90, Burma 0.53—0.52, Malaya 1.842—1.841, Canada 5.87—5.825, Cuba 4.50, Philippines 2.025—2.02, Switzerland 1.35, West Germany 1.35, Italy 0.95, France 0.0147—0.0142, Indochina 0.08—0.078, Laos 0.094—0.09, Cambodia 0.0825—0.08, Indonesia 0.169—0.16, Sandakan 1.50, Thailand 0.264—0.262, Macao 0.995—0.99.

GOLD MARKET

March	High .945	Low .945	Macao .99
12	\$256¼	255¾	High 266¼
13	256¼	255¾	
14	255¾	254¾	265¼ Low
15	256¼	256¼	
16	256	255½	
17	256¼	255¾	

The opening and closing prices were 256¼ and 255½, and the highest and lowest 256½ and 254¾. Active demand kept gold prices more steady than US\$ rates. Interest for change over in forwards favoured buyers at HK\$2.80 per 10 taels of .945 fine. Tradings amounted to 41,880 taels or averaged 6,980 taels per day. Positions taken averaged 32,900 taels a day. Cash sales totalled 17,490 taels (5,090 listed, 12,400 arranged). Imports were all from Macao and amounted to 14,500 taels. A total of 51,200 fine ounces reached Macao last week; another shipment was expected. Exports totalled 16,000 taels (7,500 to Singapore, 3,500 to Indonesia, 2,500 to Rangoon, 1,500 to India, 1,000 to Indochina). Differences paid for local and Macao .99 fine were HK\$12.60—12.20 and 12.00—11.60 respectively per tael of .945 fine. Cross rates were US\$37.91—37.89 per fine ounce; 48,000 fine ounces were contracted at 37.89 C.I.F. Macao. U.S. Double Eagle old coins and new coins were HK\$249 and 221 per coin respectively; Mexican gold coins were HK\$ 271.50—270.00 per coin.

Silver Market: The market was very active. 800 taels of bar silver were traded at HK\$6.35—6.30 per tael; 500 \$ coins at HK\$4.03—4.02 per coin; and 20 cent coins were quoted at HK\$3.12—3.11 per 5 coins.

HONGKONG SHARE MARKET

The local stock market was very active last Monday with Telephones and Docks advancing to \$35 and \$37 respectively. Profit-taking, however, depressed Telephones to 32.75 and Docks to 34.50 in the afternoon. Trading during the following 3 days was slow with many shares registering falls. The market recovered slightly on Friday but closing rates of most popular shares were lower than those for the previous week:

Shares	March 9	Highest
HK Bank	1685	1685
Union Ins.	990 s	985 s
Wheelock	8.50	8.45
HK Wharf	73 b	72.50
HK Dock	35	37
Provident	14.40	14.40
Land	61.50	61
Realty	1.50	1.50
Hotel	14.90	14.80
Trams	24.20	24.30
Star Ferry	136 n	—
Yaumati	105	105
Light (o)	21.60	21.60
Light (n)	18.40 b	18.70
Electric	30.50	30.50
Telephone	33.25	35
Cement	34.25	34.25
Dairy Farm	17.20	17.60
Watson	11.60	11.60
Yangtze	6.70 b	6.80 s
Allied Investor	5.40 s	5.40 s
HK & FE Invest.	11.30	11.50 s
Amal. Rubber	1.775 s	1.80 s
Textile	5.35	5.40 s
Nanyang	7.60 n	7.70 s

Monday: In a day of improved activity, Telephones attracted most attention and were marked up sharply to \$35

in early dealings but eased on profit-taking as the day progressed. There was some brisk trading in Docks with the price seesawing from \$35 up to \$37 and closing at \$34½. Elsewhere price changes were negligible and the day's turnover amounted to approximately \$1,560,000. **Tuesday:** The tempo of trading slackened with the turnover amounting to approximately \$1,220,000. Docks and Telephones again accounted for the bulk of the day's business at fractionally higher levels than Monday's closing prices. Electrics were also quite active with 5,000 shares changing hands at \$30. Elsewhere business was on a light scale with little change in rates. **Wednesday:** The small amount of business transacted during the half day session was confined to a few issues only and with rates virtually unchanged except for China Lights (Old) which dropped to \$21. The turnover amounted to approximately \$320,000. **Thursday:** Extremely dull conditions prevailed. Prices were marked down slightly. The market closed dull with the day's turnover amounting to about \$390,000. **Friday:** Price changes were few and small in a day of moderate trading with the total turnover amounting to approximately \$580,000. The market ruled quiet and steady throughout the day.

DIVIDEND

The Hongkong & Whampoa Dock Company, Limited, announced the payment of a dividend of \$2 per share, plus a bonus of \$1.50 per share for the year 1955.

NEW SHARE ISSUE

The Hongkong Electric Company will increase its authorised capital from \$50,000,000 (divided into 5,000,000 shares of \$10 each) to \$100,000,000 by the creation of 5,000,000 additional shares of \$10 each. From July 1, 1956, the new shares will rank pari passu with the existing shares so that the old

Last Week's Rates		Up or Down
Lowest	Closing	
1670	1680	—\$5
980	980 s	—\$10
8.35	8.45	—5¢
71.50 b	71.50 b	—\$1.50
34.25	35.75	75¢
14.10	14.20	—20¢
59	60	—\$1.50
1.40 b	1.40 b	—10¢
14.30 b	14.50	—40¢
22.70	22.70	—\$1.50
—	135 s	—\$1
104	104	—\$1
20.70	21	—60¢
18.30	18.30	—30¢
29.60 b	29.70	—30¢
X-All 23	X-All 23	—\$1
33.75	34	—25¢
17.20	17.60	40¢
10.50	10.50 b	—\$1.10
6.50 b	6.80 s	steady
5.30	5.40 s	steady
11.30	11.30 n	steady
1.675	1.70	—7½¢
5.35	5.40 s	5¢
7.40 b	7.65 n	5¢

and the new shares will rank equally for the dividend declared in respect of the second half year's working.

HONGKONG AND FAR EASTERN TRADE REPORTS

March 12-17, 1956

Trade Restrictions: Burma prohibited the import of common quality spinning and weaving machinery; however, imports of spare parts, accessory machines and knitting machines were not banned.

Freight: Freight rates for wheat and wheat flour from U.S. and Canada will be increased by US\$2 per short ton as from April 1st, and that from Australia by 25 shillings.

China Trade: China concluded a trade protocol with Albania covering wheat, oil, cotton, tea and flax products from China in exchange for Albanian cotton, tobacco and cotton textiles. Peking established a new organization here to distribute all exports direct to Hongkong retailers instead of through local importers. Supplies which reached here in increased volume included cement, caustic soda, zinc oxide, sodium sulphide, glycerine and soda ash. Exports to China remained insignificant.

Taiwan Trade: Taipei further lowered export floor prices for black tea; the new prices per lb. f.o.b. are FOP US\$0.30, BOP US\$0.26, OP US\$0.24, P US\$0.23, and Powchong US\$0.30. From here, Taiwan procured limited quantities of pharmaceuticals

and industrial chemicals. Imports of Taiwan sugar remained active.

Japan Trade: Tokyo revised regulations governing her trade with Indonesia: export permits obtained against sugar and fuel imports under open account system should not be sold and must be transferred to the Nippon-Indonesian Trade Commission to cover the export of textiles. In the local market, Japan remained keen on oil seeds and woodoil.

Korea Trade: Seoul will exempt reconstruction and rehabilitation supplies and factory materials from import duty beginning April 1st. Public tenders were invited by Korea for the supply of coal and related fuels, building materials and broadcasting equipments, etc. In the local market, Korea provided strong demand for many popular items after the allocation of US\$3 million Aid Funds in Seoul towards the end of the week.

Indonesia Trade: Djakarta resumed to accept import applications for industrial materials. More letters of credit reached here from Djakarta, mostly for cotton yarn and textile. Shipments from here to Indonesia were very active with the approach of Indonesia's Pusa Festival.

Thailand Trade: Thailand provided very strong demand in the local market for Japanese goods. Imports from Thailand also increased. Substantial quantities of Thai produce were transhipped to Japan.

Indochina Trade: Substantial quantities of Indochinese red maize, beans, sesame seed and metal scraps were transhipped through here to Japan. From the local market, Vietnam bought cotton textiles and construction materials mostly with US-aid funds. Cambodia was planning to simplify her import system and showed signs of more trade with HK. The barter trade between HK and Vietnam also improved; commodities traded included feathers, cassia lignea and medicinal herbs from Vietnam in return for tanning extract, coconut oil, granulated sugar, electric bulbs, and cotton textiles from HK.

Philippine Trade: The barter trade between HK and the Philippines remained active covering mostly sugar, mango and rice bran from the Philippines in exchange for cotton yarn and textile, underwear, structural steels, sundry articles and sundry provisions from here. Towards the end of last week, however, many local shipping firms rejected requests for cargo space to Manila on account of the waterfront strike over there.

Burma Trade: Burma issued import licences for watches and clocks as well as accessories and spare parts. More orders reached here from Burma for sundry provisions, socks, towels, and Chinese medicine. There were also inquiries for torch-batteries, torchlights, buttons, boot polish, flint and toys.

Other Countries: The Australian Government Trade Commissioner here left for China to make a survey of trade possibilities between China and Australia.

China Produce: The market remained very active with strong demand from overseas particularly from Japan. Prices were firm. Woodoil was purchased by Japan, Australia and New Zealand. Garlic, both toasted and untoasted, drew very brisk demand from Thailand, Vietnam and Singapore. Dried chilli registered unabated buying support from India and Singapore. Cassia lignea was steady under continuous shipments to India, Penang and Europe, while cassia buds was favoured by Canada. Sesame seed chartered a mixed trend though Japan kept on buying, followed by Canada. Castor seed remained steady; Japan booked direct shipments from Thailand. Maize drew satisfactory buying support from Japan at slightly improved prices. Rosin featured substantial purchases by Holland, but demand from Japan slackened. Raw silk was favoured by Indonesia and Europe; short stock restricted trading. Demand from Japan for bristles was so strong and supply from China so uncertain that over 100 c/s of Chinese bristles were shipped here from Europe and sent to Japan. Other exports concluded were jute, honey and spun silk to Europe; tumeric and camphor tablet

to Africa; teaseed cake to Singapore; and galangal to Middle East. Citronella oil declined because new crops were expected soon. Menthol crystal was further depressed by the weak world market. Bourrette received enquiries from Japan but business was prevented by low stock. Rice bran was steady and wheat bran firm on account of low stocks; both enjoyed steady local demand. Green pea remained firm with demand from Japan, India and local consumers. Green bean was favoured by Singapore and Penang; price improved. Yellow bean, broad bean, red bean and string bean were steady with local demand. Black bean was firm with orders from Macao.

Metals. Improved demand from S.E. Asia kept the metals market active. Deals concluded covered mostly structural steels; prices were further stimulated by short stocks. Mild steel plate advanced on higher cost and low stock when orders from Thailand and the Philippines increased. Mild steel angle bar went up on short supply. Black plate waste waste registered keen demand accompanied by selling resistance. Galvanized iron sheet and galvanized iron wire attracted good demand from Indonesia and local users; prices improved on marked-up indents. Galvanized iron pipe was steady despite new arrivals; both local and outport sales were brisk. Tin recovered on improved Singapore price. Tin plate firmed on steady local demand and dwindled stock. Tin plate waste waste was stimulated by better demand and higher cost. Brass sheet and copper sheet improved on orders from Taiwan. Brass and copper scraps were higher on low stocks. Iron scraps dropped when Japan obtained supplies from U.S. Iron wire nail, pig lead, wire rod, and steel window sash bar were firmer, while galvanized steel plate was barely steady under heavy stock.

Paper: Demand from S.E. Asia and Korea was keen. Prices headed higher levels. Transparent cellulose paper was only available in forwards. Newsprint in reams remained a favourite to Thailand and Vietnam; Korea was interested in newsprint in reels, m.g. white sulphite, and aluminium foil. Glassine was firm under purchases by Thailand and Vietnam. Woodfree printing failed to gain much on account of abundant stock although Korean

purchases remained active. M.G. cap was bought by Thailand at steady prices; m.g. red sulphite noted demand from Vietnam. Tissue paper was weak because Korea approached Japan for supplies. Bond was depressed by selling pressure; m.g. ribbed kraft dropped because outport demand waned while stock here remained heavy. Items enjoying local demand were poster, foolscap, and straw board.

Industrial Chemicals: Linseed oil was kept firm by low stock. Sodium hyposulphite recovered under purchases by Taiwan and the local users. Sodium sulphide registered inquiries from Vietnam and ammonium bicarbonate improved on short stock. Borax was steady with limited local demand. Taiwan also inquired for rongalite C lumps and Korea for caustic soda. Cup grease recorded better demand at higher prices. Potassium carbonate was weakened by the expected arrival of new supplies. Glycerine, gum copal, oxalic acid, paraffin wax, soda ash, sodium bicarbonate, sodium bichromate, stearic acid and zinc oxide were steady; while chlorate of potash, lead oxide, shellac, and sodium nitrate remained weak. Trading was not very active and prices in general were weak.

Pharmaceuticals: Aspirin powder, atophan tablet, and saccharine crystal were bought by S.E. Asia, santonin crystal and sulfathiazole powder by Korea, and salicylic acid powder by Taiwan. Adhesive plaster, caffeine alkaloid, dihydro-streptomycin, ferri ammonium citrate, neosalvarsar ampoules, penicillin preparation, phenacetin, quinine ethylcarbonate, quinine sulphate, saccharum lactose, sanatogen, sodium bromide, sulfadiazine powder, sulfaguanidine powder, and vitamin B powder were steady with local demand.

Cotton Yarn & Textile: The cotton yarn market was firm with renewed Indonesian demand and steady local sales. HK yarns were popular and fine yarns scored gains; Pakistan yarns noted active new bookings; Japanese yarns were firm but Japanese staple fibre yarns turned sluggish towards the end of the week. Exports of cotton textile were slow; local bleaching factories, however, provided very strong demand.

Rice: Market was firm with keen retail business. Selling resistance was developed towards the end of the week.

Sugar: Heavy arrivals from Taiwan, Japan and France depressed the market. Philippine sugar however was kept steady by short stock.

Cement: Active demand, both local and outport, was registered. China cement enjoyed good local business; about 20,000 tons were sold here since the beginning of the year. Japanese cement and Green Island products remained popular with S.E. Asia.

Miscellaneous: Groundnut oil scored further gains under keen demand and tighter supply. International market prices for this item also went up.

Hongkong Products: HK iron ore enjoyed very strong demand from Japan. Following the installation of a display of HK products aboard m/v "Ruys" last November, another display has been installed on m/v "Tegelberg" which will call at Singapore, Mauritius, East and South Africa, and ports along the eastern coast of S. America.